ASX Announcement

30 July 2010 – June 2010 Appendix 4C commentary

Corporate

The Company's cash at bank as at 30 June 2010 was $2.44m.

Dr David Wyatt a non-executive director and former chairman of the Company retired from the board of directors.

Mr Peter Rigano retired as company secretary of the Company and Mr Pierre Van Der Merwe, Chartered Accountant, was appointed in his place.

The Company settled an ongoing dispute relating to monies claimed by Sage Group Holdings Limited for the completion of the Company's beta veneer unit.

Operational Activities

Having successfully raised funds through the conversion of unlisted options to ordinary shares in the Company in the March 2010 quarter, management was then able to commit to the acquisition of plant and equipment to complete the integration of the factory at Walkamin.

Quarterly expenditure included $363k relating to the acquisition of plant and equipment including portable sheds and harvesting equipment for the Walkamin project and a significant investment in the design and documentation of the next generation of the Company's beta veneering unit.

A further $135k was spent by way of a final payment to acquire "in full" the manufacturing site and facility at Walkamin pursuant to an agreement with World Future Fibre Pty Ltd.

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Production of veneer continued during the quarter with all veneer product being used for trialling, testing and provision of samples to prospective customers in Australia and Europe. We are endeavouring to attain consistency of product outcome and quality. Production was at times interrupted by the need for mechanical fixes to the veneering unit. Small quantities only were sold during this period.

By way of further explanation the Company announced late last year that it had achieved a level of "continuous production" from the beta veneering unit and the Company also noted that an acceptable production rate was being achieved. These announcements related to earlier announcements in 2009 that the beta veneering unit was not working and had not passed the agreed acceptance criteria because of design deficiencies requiring our engineering team to redesign and rebuild the veneering unit.

The redesign and rebuild enabled the beta veneering unit to achieve a "continuous production" up to the stated production rate per hour later in 2009. That has been achieved but because of design deficiencies in the beta veneering unit the veneering process cannot as yet operate "non stop" and requires regular and intermittent cleaning, debris removal and technical mechanical improvements as the machine is being pushed to operate at higher production rates. In addition this "first commercial machine" has been worked intensely for over 12 months and the Company has identified much needed improvements in elements of the machine such as, for example, bearings, rollers, cutting blades and conveyors all of which will be incorporated into the next version.

The fact that the beta veneering unit achieved "continuous production" and that an acceptable production rate was being achieved should not be interpreted to mean that the beta veneering unit was operating at a "full" commercial level on a "non stop" basis, notwithstanding that limited product was supplied and sold to customers in Australia and Europe.

Meeting technical criteria from a design point of view to satisfy contractually agreed acceptance criteria as determined in the contract with Sage and as previously announced is not equivalent to commissioning a full scale commercial operating factory.

The beta veneering unit is only one component of the production facility at Walkamin. It is the most important and main machine from a technological view point. The production facility consists of many more processes and machinery as well as structures, systems, trained workers, procedures and recipes. Increasing production in quality and quantity requires the whole production facility to be in place, integrated and working with trained personnel and procedures.

This trial production process has validated the essential patented veneering technology but it has highlighted required design improvements which are being incorporated in the design for the next version of the veneering unit. In addition, the trial production process over the past 12 months has highlighted that there are several elements and characteristics of the banana trunk which will impact on the quality and appearance of the final product outcome.

Variations of thickness and colour, imperfections from material handling, cutting and drying recipes, are just a small sample of the issues being addressed in this continuous trial period. An input of a specific quantity of banana trunk does not equate to an equivalent output of veneer product. Losses due to imperfections in base material and the veneering process itself do occur, and the Company goal is to work at improving the efficiency of production output and the consistency of quality and appearance of veneer product.

The above issues must be resolved with customers and product before the Company can achieve full scale commercial production.

Again the trial process has validated 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.

Finally, in this context the trial production process is enabling the Company to be discerning about 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. Our expectation is that the Company will be in a state of continuous improvement well beyond the building and commissioning of the next version of the veneering unit as would be expected of a progressive technology development company.

The Company is aware of correspondence having been sent to some shareholders from a group known as "Friends of Papyrus" expressing concern regarding the lack of sales on a commercial scale. The Company is well aware of these issues and we are striving to address them and the Company is looking forward to achieving sales and the resultant benefits.

During the past quarter we have acquired the following capital equipment for developing the production capacity of the Walkamin factory as a showcase facility:

- board making press and equipment;
- machinery for harvesting;
- tractors and trailers for transporting the harvested banana tree trunks;
- transportable sheds for the production and storage of veneer and Panel, material handling equipment and engineering workshop.

A comprehensive review of the Walkamin factory operations has been conducted resulting in the division of responsibilities into:

1. Facilities Management (harvesting and transporting of banana tree trunks to the factory/ construction, maintenance and security of factory facilities on site as well as the management of staff and statutory responsibilities including those of occupational health and safety);

2. Engineering (all technical aspects of the machinery production line including continued research and development and general maintenance and planned upgrading of equipment); and,

3. Production (receiving, grading, sizing, loading the banana tree trunks into the conversion process and managing the production of veneer and fibre for conversion to board products).

A program of integrating the various equipment for continuous production of fibre for board manufacture (as distinct from production of veneer described above) is planned for the ensuing quarter now that the requisite materials and equipment have arrived on site.

The Company's wholly owned subsidiary The Australian Advanced Manufacturing Centre Pty Ltd (AAMC) Thebarton facility for the development and manufacturing of equipment for future sale (and license) has been significantly developed over the period. It has acquired most of the capital equipment and tools required to build, install, commission, service and maintain production equipment and machinery in Australia and overseas. Design work for the enhanced next stage Beta veneering machine is near completion.

The Company created its first shareholder newsletter which was published and released on 1st July.

The company was recently the recipient of the 2010 Australian Business Award for Innovation. This award recognises organisations that have made significant contributions to their industry through research and development resulting in the introduction of a new technology or application of social, environmental and/or economic benefit.

In addition the company received 2 high commendations at the International Manufacturers' Monthly Endeavour Awards in the categories of "Environmental solution of the year" and the "Australian consumer/trade product of the year".

Rule 4.7B

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	Quarter ended ("current quarter")
63 110 868 409	30 June 2010

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		
1.2	Payments for (a) staff costs	(347)	(1,585)
	(b) advertising and marketing	(81)	(318)
	(c) research and development	(13)	(50)
	(d) leased assets	(361)	(1,393)
	(e) other working capital		
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	14	50
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other		
	Net operating cash flows	(788)	(3,296)

		Current quarter $A'000	Year to date (12 months) $A'000
1.8	Net operating cash flows (carried forward)	**(788)**	**(3,296)**
	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	(549)	(1,049)
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)	316	683
	Net investing cash flows	**(233)**	**(366)**
1.14	**Total operating and investing cash flows**	**(1,021)**	**(3,662)**
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	292	5,301
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)	(34)	(325)
	Net financing cash flows	**258**	**4,976**
	Net increase (decrease) in cash held	(763)	1,314
1.21	Cash at beginning of quarter/year to date	3,207	1,130
1.22	Exchange rate adjustments to item 1.20		
1.23	**Cash at end of quarter**	**2,444**	**2,444**

+ 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	185
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		

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	481	2,855
4.2 Deposits at call	1,963	352
4.3 Bank overdraft	-	-
4.4 Other (Grant Account)	-	-
Total: cash at end of quarter (item 1.23)	**2,444**	**3,207**

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: 30th July 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. 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.