



7 July 2017

ASX Announcement

Papyrus Egypt business project update

Papyrus Australia Ltd (ASX: PPY) (“PPY”/“Company”) is pleased to advise it has received the attached report from our partner in the Papyrus Egypt project, namely, Egypt Banana Fibre Company (“EBFC”). PPY will advise the market when the full production commissioning has been completed as referenced in the report from EBFC.

Registered Office from 1 August 2017

The Company advises that from 1 August 2017 the registered office will be the office of V.P. Rigano & Co, Suite 8, 2nd floor, 2 Peel Street, Adelaide SA 5000.

ENDS

Papyrus Egypt (PPYEg)

Commercial Registration No.:53536

Tax File No: 377175404



Papyrus Egypt 2017

Facilities

Papyrus Egypt was created in 2011 as a joint venture between Papyrus Australia and Egyptian Banana Fibre Company. Since then, and despite the very challenging environment in Egypt, the company has managed to build the first banana veneer and fibre manufacturing facility in Egypt, namely in El Kawthar Industrial Zone in Sohag.

The manufacturing facility is set on a 2000 square meter plot of land and consists of a 1200 square meter steel building containing a two story office and staff amenities building. The factory is now complete with installed production line, storage facilities, raw material loading yard, complete electrical & mechanical workshops with stocks of spare parts, effluent discharge systems, fire fighting systems, and full services connected. All necessary governmental licenses and approvals are in place.



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Raw Material

Over the last year the commissioning team managed to install and commission a complete production line consisting of imported machinery from Australia as well as locally designed and built material handling equipment.

Most importantly the team managed to establish a network and infrastructure to harvest and transport banana plantation waste to the factory. A huge amount of effort was put with all stakeholders from farmers to governmental officials to convince farmers to change their entrenched practices and allow teams of trained personnel to enter their land to harvest the spent banana trees and load them onto our trucks as per our standards and specifications.

This crucial corner stone task is now complete and is delivering good quality raw material on daily basis to our factory still at a reducing cost and improving quality.



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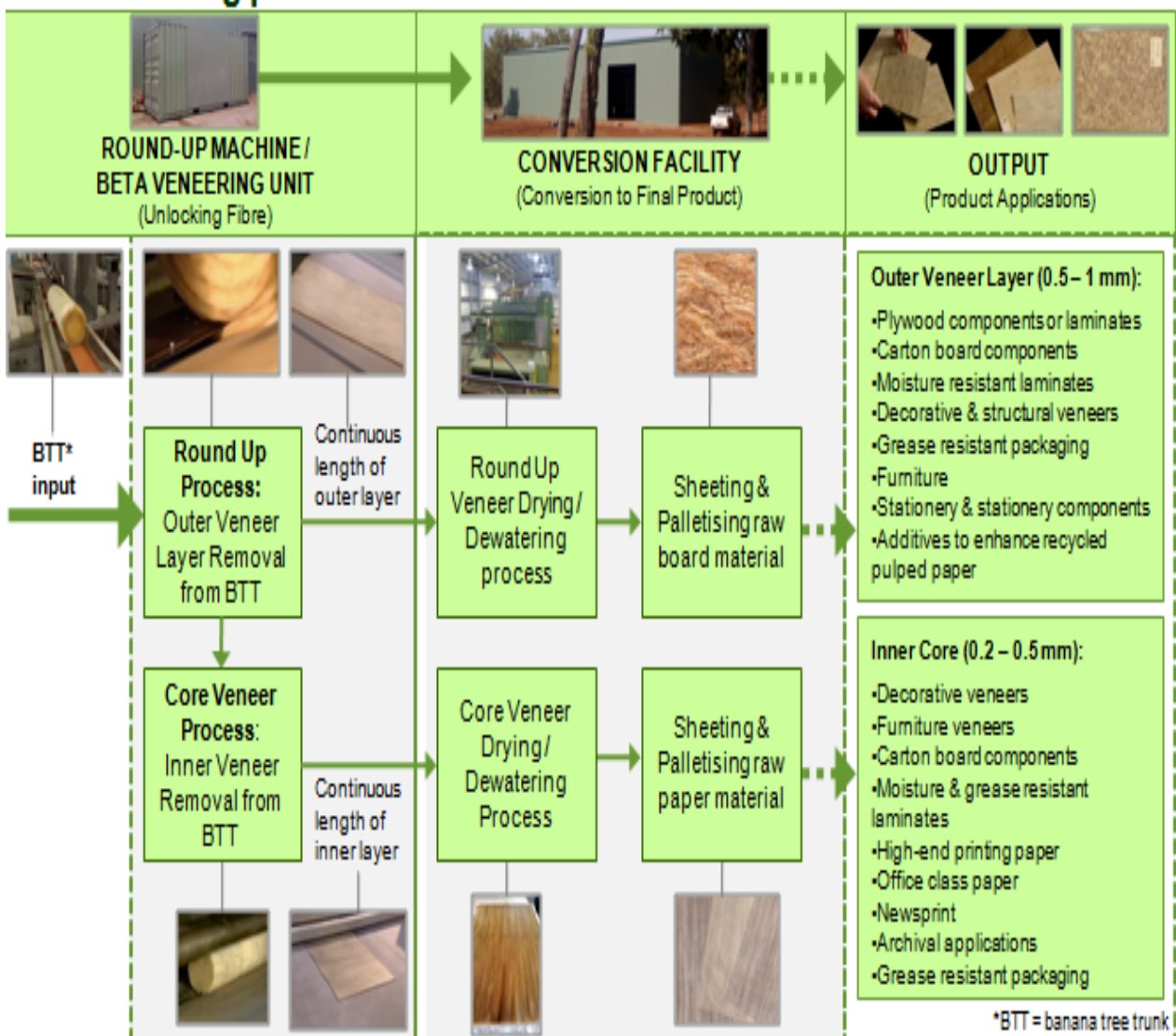
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Production

The banana plantation waste is unloaded into a specially designed log yard that cuts the banana trees into standardized billets of exact length and acceptable quality and measurements and lifts the billets onto an elevated queue conveyor to feed the Beta Veneering Unit. The BVU removes the outer layers of each banana tree by rotating the tree in front of a slicing blade thus producing a set thickness continuous layer of outer veneer which is fed into the Fibre Production Unit to be cut into desired dimensions. The outer fibres are then dried naturally and are packed ready for sale.



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The outer layer fibre is pressed into bales to facilitate efficient transportation .
Fibre was sent to ERICO – Tahta Particle Board Factory – where mixed panels of banana fibre and Sorghum was produced as a test trial and further production test are on schedule.

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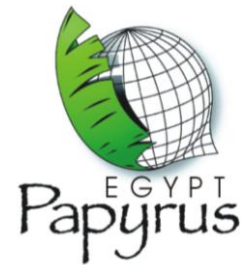
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When the outer layers are removed the remaining central core is transferred to the veneering lathe to produce decorative veneer using a very similar process to the first step. The wet veneer produced is 1,35m wide and about 1 meter long and between 1-2 mm thick. This veneer is then transferred into the dewatering press, then the absorption press and lastly into the ironing and final drying press. The veneer is now ready to be trimmed for sales.



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To date the outer fibre production is commissioned and is in production. The laboratory testing stage has been completed at the Tahta particle board factory and we have moved to the production testing stage. Large fibre samples have been processed at the Tahta factory to produce the first ever particle boards with banana fibre. There were no major issues in introducing our fibre into the existing production line. Samples of which are available now to test in the market.

Laboratory samples have been sent to a paper mill in Austria specializing in label paper. Initial testing has proven the high quality of our fibre and its suitability in their process. The next stage is to provide them with lighter color fibres to complete their requirements. The natural color of banana fibre is off white and without antioxidant it goes dark as bananas do naturally. So it is expected that we will be able to meet their requirements. The aim is to secure a large industrial customer for our fibre overseas, hoping that they will co-invest in a facility in Sohag to convert our fibre into pulp to be exported to their mills in Europe.

Samples have also been supplied to Edfu paper mill for initial testing which proved the suitability and high quality of our fibre; however more industrial testing is required.

Samples have been supplied to Deshna MDF factory for testing and with the help of Andritz the Austria technology leader in the field and the company that supplied the factory in Nag Hammady proved the suitability of our fibre for MDF production. A standing order to test the manufacture at 1000ton is too large at the moment for us to supply free of charge.



The next stage is to scale up and optimise the production.

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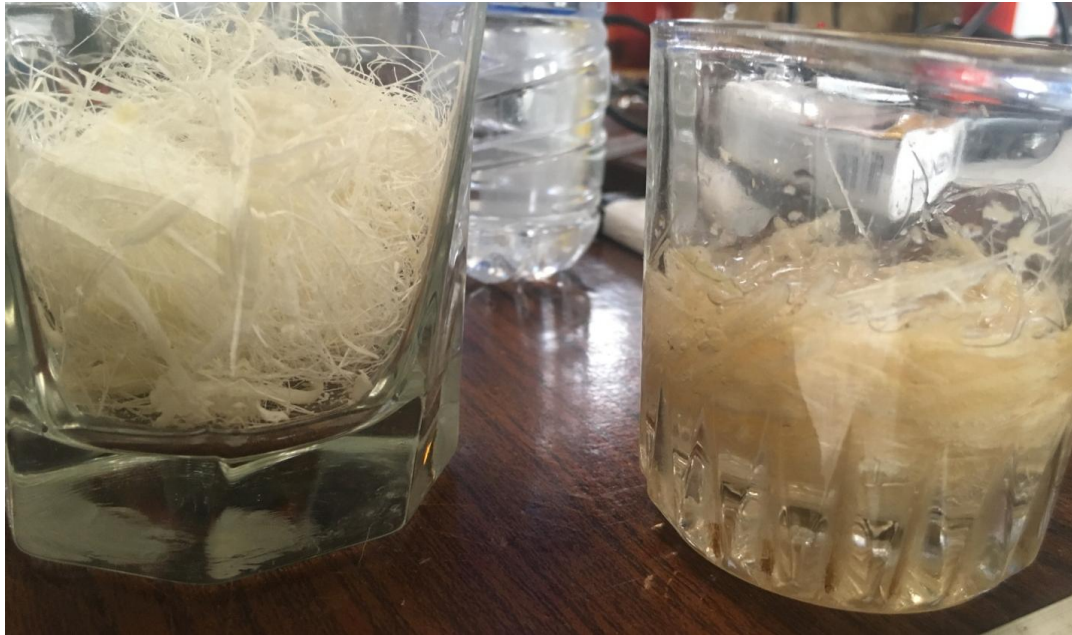
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Testing for the use of antioxidant to maintain the original light color of Banana Fibre.

Laboratory tests show successful results in using antioxidant and bleach, but scaling up the quantities needs specialized machinery equipment.



An amount of fiber were sent to Cairo Cell Factory – Abo Zaghal – a factory specialized in extracting pure cellulose from fiber to sell into the Food and beverage manufacturing sector as well as paints and filler production sector.

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The inner veneering production is now commissioned. Small amounts of samples were produced at the Souhag Factory, and is available to send to market for testing, but the factory is not in mass production yet. Scaling up the veneering production will start after raising enough operation money.



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Maintenance and Spare parts

The factory now has a well trained team capable of delivering service and maintenance as well as daily production with minimum input from head office in Cairo or technical support from Australia. A fully equipped maintenance workshop including all necessary tool sets and spare part inventory is currently in place.

Marketing & Sales

This project is mainly about establishing the first banana veneer and fibre production facility in Egypt as a model for duplication and expansion. The world is running out of trees and forest to cut down for use as timber or paper and what is left is now valued for its environmental input and biodiversity. Therefore the prices of timber products and fibre are rising steadily and the mature markets are looking for environmental replacement. Top of the list is forest free or tree free substitutes and the ultimate option is the use of existing agricultural waste, especially wastes that biodegrade anaerobically thus releasing methane rich gases and carbon dioxide. Those gases are the main factors in global warming. The use of high concentration agricultural wastes solves many existing problems as well as makes good sense economically.



The idea to set up a production facility in Egypt was essentially the result of high demand from the markets in Europe for banana veneer and fibre, both of which are highly valued in Europe. There are no banana plantations in Europe. Egypt is the

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closest region with high concentration of banana plantations (over 50,000 acres) as well as competitive costs of production and transport to Europe.

The factory's aim is to export 80% of its output to Europe while supplying the rest to the local market. The local markets as well as the neighboring Arab countries are a very hungry market for timber and fibre products. As desert countries with no forests whatsoever, and relying totally on imported timber, the rise of the foreign exchange value is compounding the increasing prices of timber.



The factory in Sohag is designed to produce about 1 million square meters of decorative veneer. Banana veneer is a new product, but has many advantages compared to any other veneer on the market. Banana trees are natural clones that are harvested at the exact stage of their lives when the bunches are ripe and ready for markets. Identical trees provide consistent zero waste output and provide the veneer user with an easy job to laminate and clad surfaces with very low waste. The banana veneer is also a lot more malleable than wood veneer and can cover 3 dimensional

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surfaces as well as fold over corners and edges with ultimate ease. It is light in color and can be darkened naturally and thus would appeal to many tastes as well as its ability to be stained. Unlike wood veneer, banana veneer comes in large sheets rather than narrow stripes making it much easier and cheaper for laminators to use.

To date we have had no problems whatsoever in marketing our products. Samples from the sister factory in Australia have been supplied to potential customers in Egypt and abroad and was tested and accepted by all. Customers are demanding products as soon as possible. Our main challenge is commercial production.

A market plan for both Veneer and Fibre is in place, enclosing a list for clients, marketing sectors and products are analyzed based on production cost and quantities needed, in light of ROI's , revenues and profits. The plan is designed with distinct stages: first to penetrate market by Semi- Finished products (Such as door skins – modern tables – ceiling tiles) locally in Egypt and for export. This is to guarantee success for banana products and gain good reputation and trust. Papyrus Egypt has had enough experience over the last 5 years working with banana veneer and panels as well as supporting clients in working with our material , for example: laminating banana veneer, polishing, finishing, staining mainly to help our clients to reduce the cost of final products and increase the quality.

Papyrus Egypt export enquires have started tarts to flow and samples are being prepared to send to interested clients.

A horizontal and vertical expansion map is also in place reflecting all the information and knowledge collected through the journey of establishing the first Banana Factory in Egypt.

A moulded carton tray factory is now believed to be an essential next step to add value to the produced fiber. The feasibility study is showing huge benefits and revenues as a result of the use of our fibre byproduct which is produced anyway as a result of producing veneer. To establish such factory, Papyrus Egypt must first invest more capital to purchase a specialized fibre refiner as a primary step to sell processed fiber to existing carton tray factories to prove the acceptability of our fibre by existing users. A small quantity of fibres was sent to – Prima Pack, 6th of October industrial District – for testing which was accepted and as a result an order of 350 Kg per month was received, however it is not possible to fulfil without the above mentioned.

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