

ISSUE TWO

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WHO IS PYPYRUS?

Papyrus Australia Limited ('Papyrus') is the developer of a world-first technology that converts the waste trunk of the plantain and banana palm (banana) into alternatives to forest wood products to be used in the paper, packaging, furniture, building, construction and other industries.

The Papyrus process uses a renewable fibre source that is fully sustainable, does not contribute to the destruction of natural or purpose-planted forests and does not consume any chemicals or water during manufacture.

There are about 10 million hectares of banana plantations worldwide which create 2.5 billion tonnes of decomposing raw material. This material can be utilised by the Papyrus technology and converted to usable fibre products.

For more information about Papyrus, visit

www.papyrusaustralia.com.au

MESSAGE FROM THE CHAIRMAN



Thank you to the many shareholders who commented positively about our first newsletter.

I appreciate that there is a need to keep shareholders informed about company developments in a timely fashion and I am determined to achieve that through this medium.

In this newsletter, you will read about our progress over the past two months as a result of the continued dedication of our team at Walkamin. As you know, the board decided last year that to prove the technology in a working environment and to validate the commercial values of banana veneer and fibre products, the company would establish a showcase processing plant in Walkamin, Far North Queensland.

The Walkamin factory project has been assisting Papyrus in the past nine months to demonstrate the viability of a factory in a banana plantation environment so that we can achieve our primary goal of attracting international investors to establish factories in banana growing areas around the world. We have been able to undertake the necessary economic and financial modelling of our operations at Walkamin as we continue to develop and fine tune our operations and collect essential data for procedures and recipes for our products. This is where our foundation shareholders' and directors' commitment remains.

You will read in this newsletter that Papyrus continues to invest its capital in the development of many elements of a model factory and its processes at the Walkamin factory. Our centrepiece for banana tree trunk veneering technology, the Beta Veneering Unit, has been upgraded in the past month with significant functional improvements designed by our team of engineers, and is now functioning at the most effective level we have experienced.

We have also designed the next version of the veneering unit and are ready to start that project.

Discerning investors and shareholders will be aware that in our endeavours to promote our goal internationally, and to start with in Egypt and Europe, the company's executive committee of management is in discussions with relevant and credible business people who are interested in investing in our technology. As soon as there are confirmed details in those discussions, information will be released to the market, but until then it will remain confidential as is our obligation.

A group calling itself 'Friends of Papyrus' has communicated with many of our shareholders and our Managing Director. The group has published information and asked questions about the company, the objective of which is apparently to have all shareholders better informed and to challenge the strategy of the board. The result of this action has in my opinion been deleterious to the company and its share price. Our patient and supportive shareholders, however, know that we are on the right track and I thank them for their support. All relevant information will be provided equally to all shareholders through this newsletter and ASX releases and not otherwise.

Finally, I repeat what I said at the AGM last year, our company's substantive opportunity for capital growth rests with the company becoming an international technology licensing company, not as a local manufacturer of banana fibre products. But to do so, we have to prove the technology and validate the business case through our model factory at Walkamin, which we are doing successfully.

We welcome all feedback and comments you may have about this newsletter. Please contact us on news@papyrusaustralia.com.au

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THE PAPYRUS MISSION

Papyrus' objective is to license its technology to suitable entities in locations where banana is grown. This long-term goal includes two key areas:

1. Selling licences of the Papyrus technology
2. Developing and selling the Papyrus machinery for processing banana tree trunks

In order to sell our concept, we must first prove the validity of our technology, machinery and products, which has been the purpose of the Walkamin showcase factory for the past nine months. The output from the Walkamin factory (currently core veneer) has been tested, trialed and sold in small quantities into the marketplace in the form of decorative veneer used for furniture and panel.



INTERNATIONAL INTEREST

Papyrus' primary focus is to develop and sell the manufacturing technology and machinery in locations where banana is grown worldwide.

The Papyrus board has been actively investigating opportunities to license its technology in the European Union and in Egypt with Board members having met with various interested parties.

The Papyrus products, which were showcased at the Hannover Floor Exhibition and Monaco Yacht Show in the past year, have also received positive feedback from the international furniture and construction industries.

The Monaco Yacht Show is the premier yacht show in Europe and Papyrus' aim was to demonstrate decorative veneer and panel as an alternative product for the marine industry, particularly given its qualities of water resistance and fire retardance.



THE PAPYRUS TEAM FOCUS

The immediate objectives of the Papyrus team are to:

1. at Walkamin, we continue the work of constructing the panel production line, erecting an automated log (banana tree trunk) yard and integrating the various functions of the factory production line towards greater automation
2. continued product testing of the Walkamin factory veneer and panel output and products sales
3. development and construction of the next generation Beta Veneering Unit
4. gearing up AAMC (The Australian Advanced Manufacturing Centre, a wholly owned subsidiary of Papyrus) for the manufacturing of plant and equipment for the supply to newly established factories in Australia and overseas
5. continue the investigation of opportunities for the Papyrus technology in Egypt for factories and Europe as a marketplace for product.

WALKAMIN FACTORY UPDATE

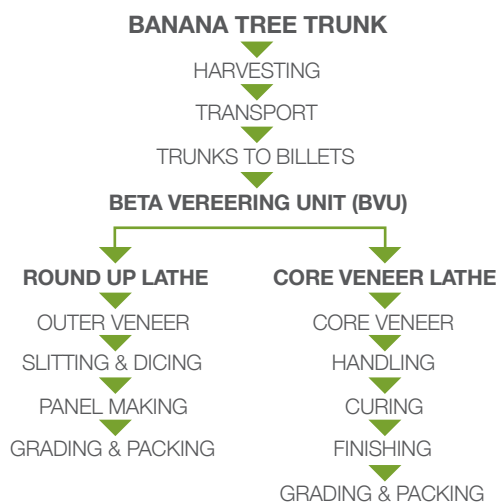
The Walkamin factory project has been assisting Papyrus in the past nine months to demonstrate the viability of a factory in a banana plantation environment. Over the past few weeks, there has been a significant level of activity including:

- the erection and completion of a veneer grading and trimming shed
- the manufacture and installation of veneer handling stations
- rebuild of the Beta Veneering Unit including several enhanced modifications resulting in improved quality and quantity of veneer output from the machine
- the erection of the panel manufacturing shed
- dry commissioning of the new panel press
- the erection of an all-shelter mobile equipment and storage workshop
- the construction of a new banana tree trunk transport trailer (now three in total)

Sales of veneer in August have been made to our European distributor Tout Bois in Italy (parcels of 240 m² and 285 m²), Transform Australia Pty Ltd of Queensland (200 m²) and Five Star Finishers (240 m²), Australia's leading and most experienced presser of timber veneer products. Five Star Finishers is currently purchasing our veneer products to help them understand and develop manufacturing techniques where our veneer products are being laminated to doors and other ready-to-use panels for cabinet making.

As at 31 August 2010, the dry veneer stock on hand for sale is 120m² and approximately 500m² is ready for grading and trimming.

This is a very positive result and the company is working hard to increase the volume of product for sale to generate revenue and to raise awareness and prove on an international scale the viability of the Papyrus products. This will assist us further in our goal to sell licenses of the Papyrus technology.



Walkamin factory process

PURCHASE OF CAPITAL EQUIPMENT



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

Quarterly expenditure included \$363k invested in portable sheds and harvesting equipment for the Walkamin project and in the design and documentation of the next generation of the company's beta veneering unit.

A further \$135k was spent to acquire 'in full' the showcase processing plant at Walkamin following an agreement with World Future Fibre Pty Ltd. Since then, the floor space of the factory has more than doubled.

PAPYRUS AUSTRALIA WINS THE AUSTRALIAN BUSINESS AWARD FOR INNOVATION

DISTRIBUTION

This newsletter distributed by Computershare has been e-mailed to those shareholders who have nominated to receive Papyrus communications via e-mail. Papyrus encourages the use of e-mail in its communications as it is faster, it creates savings for the company and it is more kind to the environment. To register, please e-mail

news@papyrusaustralia.com.au

Papyrus Australia was recently granted the 2010 Australian Business Award for Innovation.

The Australian Business Award for Innovation 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. Papyrus was one of 105 Australian Business Award recipients which received a total of 1,849 separate entries from 962 organisations.



ENVIRONMENTAL VALUE

Papyrus recently commissioned Sigma Global, an international management company with more than a decade of experience in global environmental markets, to advise on how to realise value from the environmental benefits inherent in the Papyrus technology and process. The matters Sigma Global were asked to consider included:

- the latest global and local developments in climate change policy
- how participation in environmental markets can add value to Papyrus's activities in Australia and in overseas countries where banana is grown
- how environmental markets can improve project investment returns
- how Papyrus can best optimise its assets and activities and reduce risk in an increasingly carbon constrained environment
- opportunities for Papyrus presented by the various environmental asset accreditation and trading schemes

Although an emissions trading scheme has been shelved for the time being in Australia, there are many countries worldwide that have operating emissions trading systems and environmental certification of products. The Papyrus board will in the coming months apply the study findings to its strategy going forward and to its operational production and financial models.

'There is a significant opportunity for Papyrus to monetise the environmental benefits inherent in the Papyrus technology and process, adding considerable value to the Papyrus business model.' Sally Burns, Managing Director Sigma Global.



IN THE MEDIA

Papyrus has featured in various media over recent weeks including in the Cairns Times, Townsville Bulletin, North Queensland Register, Egoli online, Trade dealer online and InBusiness.com.

To view some of the media coverage about Papyrus, visit our [website](#).