



ASX Announcement

26 October 2017

MANAGING DIRECTOR'S STATEMENT FOR SHAREHOLDERS

Papyrus Australia Ltd (ASX:PPY) ("Papyrus", "Company") has a valuable joint venture with Papyrus Egypt in the city of Sohag in upper Egypt.

Papyrus Egypt is manufacturing quality banana veneer in its factory in the El Kawthar Industrial Zone for its current customers near the Nile valley and is now finalising negotiations with a third customer with very long term continuous supply needs.



This means that the Banana Veneer Unit (BVU) operating in the factory will need to be dedicated to producing continuous supply for some time.

With orders pending for higher value-added veneers, for instance panelled, finished or moulded, the joint venture partners have determined to transport the Alpha machine which is still in Australia to the factory as quickly as possible to enable supply capacity. The second machine will also allow us to create innovative samples to enter other markets without disrupting the continuous production of the BVU.

Even then, with the enormous growth of new housing in Egypt, a country with a population of 93 million, we will have to construct and commission more veneer machines. One potential customer requires 40,000 veneered door panels per month, which they say will go into the 500,000 new apartment blocks being built around Egypt under pressure from government instructions.

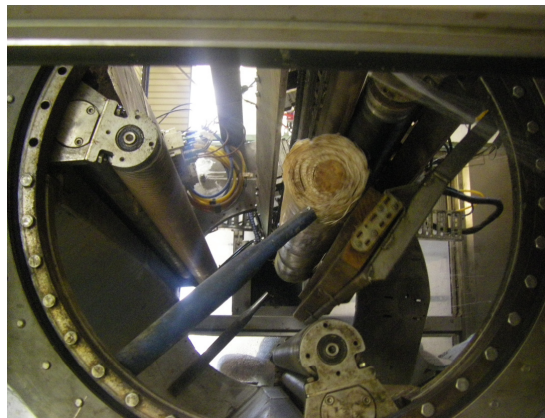
It was clearly the correct decision for PPY to initiate our joint venture in that country.

At the same time we are negotiating for the sale of new BVU's that we have under construction to customers in Egypt and South America. Those deals are likely to be

joint ventures similar to the Papyrus Egypt one, which cleverly has sold a machine yet retained 50% of the commercial results.

I am planning investor presentations to raise the funds to ensure Papyrus can supply these machines to its customers.

While my first trip to the factory in Egypt has been to verify for myself the asset, most of my time has been participating in sales meetings, checking supply chains and presenting to local shareholders. Despite those welcome distractions, in terms of my own due diligence I was impressed with the factory, with the operations and management, and the finished product quality. With my own mechanical bent, I was fascinated by the sophistication and performance of the BVU, and the speed with which all of this has been put in place. I witnessed first-hand a complete service maintenance routine, readjustment to a new input material and recommissioning within 3 days.



There is no other banana veneer anywhere in the world, so Papyrus has a matchless future for a market with phenomenal demand and unlimited clean and green raw material supply.

It does not end there.

Banana pseudo trunks have an outer layer and a core. The unique texture, colour and quality of the core are why it is used in our veneer manufacturing. But Papyrus does not waste the outer section, which goes to make fibre.



This is a second product and a second market that means every time we make veneer we make fibre. Fibre will go to two of our customer types prospects of which we are currently in discussions with: those who make environmentally sound

disposable packaging such as egg cartons and produce trays, or moulded plates; and those that use our fibre in a modified form to make particle boards of various types. One has value-added characteristics, the other is a commodity, but one we are happy to charge for, since it would otherwise be our waste.

Papyrus Egypt has completed trials with two key customers in each of those sectors and is now negotiating to supply our banana fibre on a long term continuous basis.

Our eventual plans are to manufacture our own value-added timber products from our own fibre in a vertical market process. That will require the construction of the specialist particle board machinery and our second factory adjacent to the veneer factory, on which land we have already acquired.

Sincerely,

A handwritten signature in cursive script that reads "Allan Branch".

Allan Branch
CEO and Managing Director.

Enquiries: Allan Branch: company website contact form, www.papyrusaustralia.com.au