



The Manager
Companies Announcements Office
Australian Securities Exchange

24 April 2017

Dear Sir/Madam,

Quarterly letter to shareholders

Please find attached a copy of the first in a series of letters that the Company intends to release to shareholders following the end of each quarter.

It does not contain any unreleased material information. Instead, it is intended to highlight the progress that has been made, while providing some insight into the Board's rationale for the Company's activities and plans.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "V Allinson", with a horizontal line extending to the right.

Ms Vicky Allinson
Company Secretary

KIPT Quarterly letter

March quarter 2017

Dear Shareholder,

As the number of shareholders in the Company grows, and as the Company comes to the attention of a broader range of stakeholders, the Board has decided to provide a quarterly letter to update you on what is happening at KIPT. Not everyone is able to attend our general meetings in Adelaide and they are sufficiently infrequent that some form of more regular communication is needed, over and above the flow of announcements made to the ASX.

The idea of a quarterly letter is in fact a suggestion of one of our shareholders, so we hope that you will not only read it, but also take it as an indication that the Board is keen to hear from you and prepared to act on good advice.

Background to current capital raising

The Company is in the process of issuing approximately 16.75m new shares at \$2.00 per share to raise a total of about \$33.5m, before expenses. \$12.1m has been raised by a placement to (mostly) new shareholders. \$21.4m will be raised from an entitlement offer to existing shareholders who will be offered the opportunity to buy four new shares at \$2.00 for each nine shares held on 19th April. We expect to post the offer documents to most of our shareholders on 24th April 2017.

Of course, we welcome the Company's many new shareholders and thank them, and our existing shareholders, for their support of the Company in the current capital raising. But, why, you may be wondering, did the Board decide to raise capital at this time, and at a meaningful discount to the prevailing market price?

The purpose of the capital raising was to fund the purchase of the Forestry Investment Trust estate on Kangaroo Island. The estate includes almost 19,000ha of land, of which approximately 10,700 ha is planted with Tasmanian blue gum (*E. globulus*) in various stages of maturity. The current standing volume of timber is estimated at 2.4 million green tonnes. The FIT acquisition quadruples the size of the Company's plantation area and triples its standing timber resource.

The approval process for our Smith Bay Wharf proposal is going steadily but slowly. As soon as it became clear that KIPT would not get development approval before the 28th April 2017 deadline for early settlement of our Kangaroo Island FIT Estate acquisition, the Board was faced with three choices:

-) Give notice to the Vendor that we would exercise our contractual right to **extend the period for settlement** until September, meaning that the purchase price would rise by more than \$12m. This would mean that any equity capital raising would be delayed but that, when it did take place, it would have to be for a larger sum and, conceivably, occur in a less favourable climate.

-) **Borrow** between \$55m and \$60m on a secured basis from a second-tier lender, with a term of several years, to complete the acquisition for \$55m, thereby avoiding the increase in the purchase price associated with later settlement. Again, this would delay any equity capital raising, possibly until after the wharf decision by government. However, the terms on which such debt could be obtained (three offers were considered), and the potential, however small, for the lender to use the lending covenants to assume effective control of the Company and its assets made the option unattractive.

-) Use a combination of **bank debt and new equity** to fund the FIT acquisition and the Company's working capital requirements. Finance from the Commonwealth Bank was available, but only to a maximum of \$25m. Therefore, equity finance was also required. To raise sufficient money the issue has been priced at a discount to the current share price, to encourage existing holders to support the Company and new investors to do likewise. The Board chose this course, , not because it was particularly attractive to offer the shares at less than market price, but because it best protected the Company's assets and avoided the risks and costs associated with alternative courses of action.

In simple terms, we felt that the FIT acquisition was so good that existing shareholders would benefit from it, despite the dilution caused, in particular to non-participating shareholders by issuing new shares at \$2.00. My family added to our own holdings, as did our Chairman and his family. This reflects our confidence in the Company's future.

CBA debt facility

The course of action described above would have involved the issue of many more new shares were it not for the support provided by CBA. The Bank's \$25m loan towards the FIT purchase, provided after an extensive and competitive due diligence process, is therefore of great benefit to shareholders and demonstrates to the market that our development project is bankable.

CBA has also agreed to lend the Company 100% of the anticipated cost of the Smith Bay Wharf construction cost (\$25-30m). The Company is changing its banking arrangements so that all its operating accounts are with CBA, on the basis that we value the Bank's support and wish to show our support for CBA in turn.

Mitsui – KIPT's offtake partner

During the recent quarter, KIPT signed an MoU with Mitsui Bussan Woodchip Oceania Pty Ltd. It is not a binding offtake agreement. Rather, it is an agreement to work together, on an exclusive basis, to sell the entire timber output of the enlarged estate. That work has already begun and we are pleased to be partnered with Mitsui.

Once we have greater certainty about the timing of our first and subsequent shipments, we expect to enter into binding arrangements, through Mitsui, with pulp mill customers in Japan and China.

We have made it clear to Mitsui that we would welcome them as future shareholders in the Company. That is the normal way in which Mitsui operates its various resources projects in Australia, as a supportive equity partner. In our case, there is no agreement to this effect, just a mutual willingness to consider the possibility.

Wharf progress

It has taken a long time and a good deal of money to get to where we are today. We believe that all of the important external studies that will inform our Environmental Impact Statement have been completed. There remains the possibility that government will require additional studies.

We are not looking for public political support, just an orderly and timely assessment of the project on its merits. We believe that the project stacks up well on environmental, social and economic grounds. It is unquestionably good for Kangaroo Island and for South Australia generally and it does not rely on government financial assistance.

The development does have opponents, simply because no one wants a wharf in their neighbourhood. However, we feel that their legitimate concerns can be addressed satisfactorily.

We are confident that, if it is assessed on its merits, and on the basis of scientific evidence, our proposal will be successful. The SA Major Projects assessment process is professionally-managed, rigorous and evidence-based.

This is a good time to pay credit to the team of Adelaide-based consultants who are working with KIPT on our EIS. Our project is in the most capable of hands.

The next step in the process is a site visit by the Development Assessment Commission of South Australia, in early May, followed by the issue of EIS reporting requirements. We will check these carefully and shape the EIS accordingly. Then there is a period of public exhibition, after which we respond to comments. The Department for Planning, Transport and Infrastructure then prepares a development assessment report for the Minister, who recommends to Cabinet that it advise the Governor to make the necessary proclamation.

Some parts of this process have a timetable but most simply run their course, so the final decision could be rapid or slow. We just don't know. But we are confident that any rational assessment will be favourable for KIPT.

To help ensure that the community is informed about the benefits of the Smith Bay wharf project, the Company developed a glossy insert information piece for *The Islander* newspaper. We were pleased with the response, and with the number of KI residents who have approached the Company expressing interest in employment or supplying contract services.

However, we still have a long way to go. Island residents have seen a number of forestry companies come and go, with big promises coming to nothing. We understand their scepticism and must show by our actions that we are here to stay, as a responsible member of the Island community.



Only when the wharf is operating, forestry is the largest industry on the Island, farmers are prospering from having improved market access and island business are benefitting from the growing population and increased economic activity will we be able to show that we are different from other forestry companies that have been on the island.

Strengthening the organisation

As we get closer to the planned operational phase of the Company's business, we need to build the organisation's capacity. We have been operating with a virtual head office at Vicky Allinson's premises in Adelaide. Vicky is the CFO and Company Secretary. We have taken the opportunity to establish a new head office on level 8 of Aurora House, in conjunction with Vicky moving her business to the same floor. This is a modern building on Hindmarsh Square.

We hope soon to open a shopfront office in the main street of Kingscote, Kangaroo Island, having secured suitable premises. Knowing our obsession with cost control, you will not be surprised to learn that both offices are modest and inexpensive, but they are well-located to demonstrate that we are an important business in Adelaide and, especially, on the Island.

Much more important than the premises of course, are the people in them. Over the next three months, we plan to employ a small staff, with a focus on getting the wharf approved quickly and with reasonable conditions, building our links with the Kangaroo Island community, supporting programs to protect the Island's unique environment and managing the transition to an operating export forestry business. Filling these roles should free up some of my time for the more market-facing and government-facing roles that are important in this stage of the Company's evolution.

This is also a good time for us to be thinking about improving our website, so that it better represents the Company to the island community and to shareholders, and functions better as a source of factual information about our plans. That work is underway.

Financial position

KIPT is now in the strongest position that it has enjoyed for many years. Our June accounts will include a greatly-increased portfolio of high-quality forestry assets. These are growing in value, due to the ideal conditions on the Island. We have the cash we need to execute our plans. We have the right business partners in place. We look forward to the future and, especially, to the happy day when we can start paying dividends to our shareholders, from the cash generated by harvesting our productive Kangaroo Island plantations.

Forest assets

Thanks to the strong interest in our recent capital-raising, and with the support of the first tranche of CBA debt, KIPT will complete the FIT acquisition at the end of April. Before this acquisition, KIPT owned 3,484 planted hectares of eucalypt and pine plantations on Kangaroo Island. Post the acquisition, KIPT will own 14,207 planted hectares, made up of 80% eucalypts and the balance pine. KIPT now owns 80% of the plantations on the Island and is committed to working cooperatively and fairly with the remaining private owners.





We are working towards becoming a major source of wood chips to be exported from Australia. These chips are expected to be converted to high-quality pulp and, ultimately, into end products as diverse as rayon, disposable nappies and, of course, fine paper.

In conclusion

This letter is an experiment. If you found it informative, please let us know. If you have suggestions for its improvement, for topics you would like to see discussed, or for the Company more generally, we are very interested to hear from you. Next quarter, I plan to provide a bit more information on the excellent growth rates we are getting on our plantations ... and what we can do to increase them.

With best wishes and thanks,

A handwritten signature in blue ink, appearing to read "J. Sergeant".

John Sergeant
Managing Director

DISCLAIMER: The Company has taken all reasonable care in publishing the information contained in this letter. The information is a selective summary and is not represented as being complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We advise that you seek independent professional advice before making any investment decisions. The Company is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer because of that use.