Kangaroo Island Plantation Timbers

Annual Financial Report

ABN 19 091 247 166

For the year ended

30 June 2016

Corporate Information

Directors
Paul Lawrence McKenzie (Chairman)
John David Sergeant (Managing Director)
Shauna Marie Black
Graham Ian Holdaway

Company Secretary
Victoria Marie Allinson

Registered Office and Principal Place of Business
79 Angas Street
Adelaide
South Australia 5000
Telephone: (08) 8227 2482
Facsimile: (08) 8223 1685

Solicitors
Minter Ellison Lawyers
10th Floor, 25 Grenfell Street
Adelaide SA 5000

Bankers
National Australia Bank Limited
22-28 King William Street
Adelaide
South Australia 5000

Auditor
Grant Thornton Audit Pty Ltd
Level1, 67 Greenhill Road
Wayville
South Australia 5034

Share Register
Computershare Investor Services Pty Ltd
Level 11, 172 St George's Terrace, Perth
Western Australia 6000
Telephone: (08) 9323 2000

Kangaroo Island Plantation Timbers Ltd shares are listed on the Australian Securities Exchange (ASX)

Website
www.kipt.com.au

Australian Securities Exchange Code
KPT

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Directors' Report

Your directors submit their report for the year ended 30 June 2016.

Directors

The names and details of the Company's directors in office during or since the end of the financial year are as follows:

Director	Position	Appointed	Last elected or re-elected at AGM	Resigned
Paul McKenzie	Non-Executive Chair	29 April 2005	19 November 2013	-
John Sergeant	Managing Director	2 March 2013	18 November 2014	-
Shauna Black	Independent Non-Executive	17 March 2015	-	-
Graham Holdaway	Independent Non-Executive	17 March 2015	-	-

Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Paul Lawrence McKenzie (appointed 29 April 2005)
BSc(Agric), BCom, FAICD, AIAST – *Non Executive Chairman*

Mr McKenzie is the Managing Partner of Agrarian Management, a leading Western Australian agriculture consultancy with offices in Perth and Geraldton. Paul has 25 years' experience in agribusiness, management, finance and primary production, and owns broadacre grain properties in WA. He is a member of the WA Agriculture Minister's Agri Advisory Council, a director of the Potato Marketing Corporation of WA and of the Rural Financial Counselling Service (WA). Paul is a Past President of the Australian Association of Agricultural Consultants (WA) Inc.

Paul was the founding Chairman of Gage Roads Brewing Co ("GRB"), from concept to private company to ASX listing in December 2006 and resigned in May 2008.

Paul is Ferrier Hodgson's WA Agribusiness Specialist for advisory, reconstruction and recovery appointments.

Paul was appointed Chairman of the Group on 1 July 2009.

John Sergeant (appointed 2 March 2013)
B.Sc. B.A. (Hons I) FAMSRS GAICD - *Executive Director*

Board member since March 2013, Managing Director since January 2015. Mr Sergeant is a private investor and academic from a rural NSW background and holds a BSc in Biological Sciences and a BA in Psychology from the University of Sydney, where he was, for a number of years, a lecturer in the Business School, teaching at the postgraduate level.

Sydney-based, Mr Sergeant nevertheless spends a substantial amount of his time in South Australia and is familiar with all of the Company's land and timber assets. He is committed to working with the community and other stakeholders and with local and state government to help deliver a deep water export facility on Kangaroo Island, fairly priced and accessible to all, and to establish plantation timber as a significant employer and source of economic activity.

Prior to joining the Company, he has managed a number of successful consultancy businesses, served on the boards of Australian and multinational professional services firms and, for four years, was the President of the Australian Market and Social Research Society, of which he is a fellow. From 2003 to 2014, Mr Sergeant was the Vice Principal of St Andrew's College, within the University of Sydney.

Directors' Report (continued)

Directors (continued)

Shauna Black (appointed 17 March 2015)
Non-executive Director

Ms Black has been a well-known and respected resident of Kangaroo Island for 10 years and has a 30-year career in media. For almost eight years, she was the Managing Editor of the Island's newspaper, The Islander, having moved from Adelaide after 15-years at The Advertiser, including as its first personal finance editor and superannuation writer. Ms Black has been a member of the board of her industry superannuation fund and is active in a number of local associations. She is the proprietor of Black Stump Media, a Kangaroo Island business specializing in media and project management services.

Ms Black joined the Board of the Company in March 2015. She is currently trustee director on a number of boards in the charity and not for profit sector.

Graham Holdaway (appointed 17 March 2015)
BCA, Dip Acct, ACA, MAICD - *Non-executive Director*

Mr Holdaway has served on boards of natural resources companies with operations in Australia, Indonesia, Papua New Guinea and the United Kingdom. He is a former partner of KPMG. Graham is from a farming background and is a tree-grower in his own right, with eucalypt and radiata pine plantations in Victoria and on Kangaroo Island.

In the period June 2012 to June 2014, Mr Holdaway was a member of two listed boards: Asia Resource Minerals plc and PT Apexindo Pratama Duta Tbk. He is currently a member of the boards of a number of private companies.

Mr Holdaway joined the Board of the Company in March 2015.

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors, either directly or indirectly, in the shares of Kangaroo Island Plantation Timbers Ltd were:

Interest in ordinary Shares

	Opening interest at 1 July 2015	Net changes during the year	Issued in lieu of directors fees(5)	Closing interest at date of report
Paul McKenzie(1)	145,235	-	3,125	148,360
John Sergeant(2)	99,227	-	7,813	107,040
Graham Holdaway(3)	30,700	-	6,667	37,367
Shauna Black(4)	-	-	6,667	6,667
Total	**275,162**	**-**	**24,272**	**299,434**

(1) Paul McKenzie's Shares comprise:
   a. 129,610 held by Aminac Pty Ltd AFT Agrarian Management S/F A/C of which Mr McKenzie is the managing Director; and
   b. 18,750 held by Agrarian Consulting Pty Ltd (The McKenzie Family Account No 2 A/C> of which Mr McKenzie is the managing Director.

(2) John Sergeant's Shares comprise:
   a. 47,356 held by Phalaenopsis Pty Ltd ATF Sergeant Family Trust of which Mr Sergeant has effective control;
   b. 32,924 Direct interest;
   c. 25,760 held by Sergeant Family Superannuation Fund of which Mr Sergeant has effective control; and
   d. 1,000 held by Ms J Sergeant; Ms Sergeant is Mr Sergeant's wife.

Directors' Report (continued)

Directors (continued)

(3) Graham Holdaway's Shares comprise:
   a. 30,700 held by Mr Graham Ian Holdaway and Mrs Kristina Mary Irving Holdaway <G & K Super Fund A/C> of which Mr Holdaway has effective control; and
   b. 6,667 held by Holdaway & Holdaway Pty Ltd of which Mr Holdaway has effective control, being a director and shareholder.

(4) Shauna Black has a direct interest in 6,667 Shares

(5) During the year 24,272 shares were issued in lieu of $153,334 director's fees:
   a. 7,084 share for non-executive directors fees for the year ended 30 June 2015 $28,334
   b. 3,125 for executive directors fees for the year ended 30 June 2015 $12,500:
   c. 9,375 for non-executive directors fees for the year ended 30 June 2016 $75,000
   d. 4,688 for executive and non-executive Managing Director's fees for the year ended 30 June 2016 $37,500:

   The share issues in lieu of directors' fees were approved by shareholders at the 2015 AGM.

Interest in Performance Rights The Performance Rights Plan ("Plan") and the corresponding Rights are to be laid before Shareholders at the 2016 Annual General Meeting ("AGM") for approval. At 30 June 2016 the performance conditions had not been met. Refer to Remuneration Report for further details.

CFO and Company Secretary

Victoria Allinson (appointed 14 May 2013)

FCCA, AGIA

Ms Allinson is a Fellow of the Association of Certified Chartered Accountants and a member of Governance Institute of Australia. She has over 25 years accounting and auditing experience, including senior accounting positions in a number of listed companies and an audit manager for Deloitte Touche Tohmatsu.

Ms Allinson has been company secretary and Chief Financial Officer ('CFO') for a number of ASX listed companies including Safety Medical Products Ltd, Centrex Metals Ltd, Adelaide Energy Ltd, Enterprise Energy NL and Island Sky Australia Ltd and a number of unlisted companies. In addition, Victoria has been CFO for ASX Listed Treyo Entertainment and Leisure Ltd, Rampart Energy Ltd and Red Gum Resources Ltd.

Dividends

The directors have resolved not to declare a dividend for the year ended 30 June 2016. No dividends were paid during the previous year.

Principal activities

The principal activities during the year of entities within the consolidated group is forestry management.

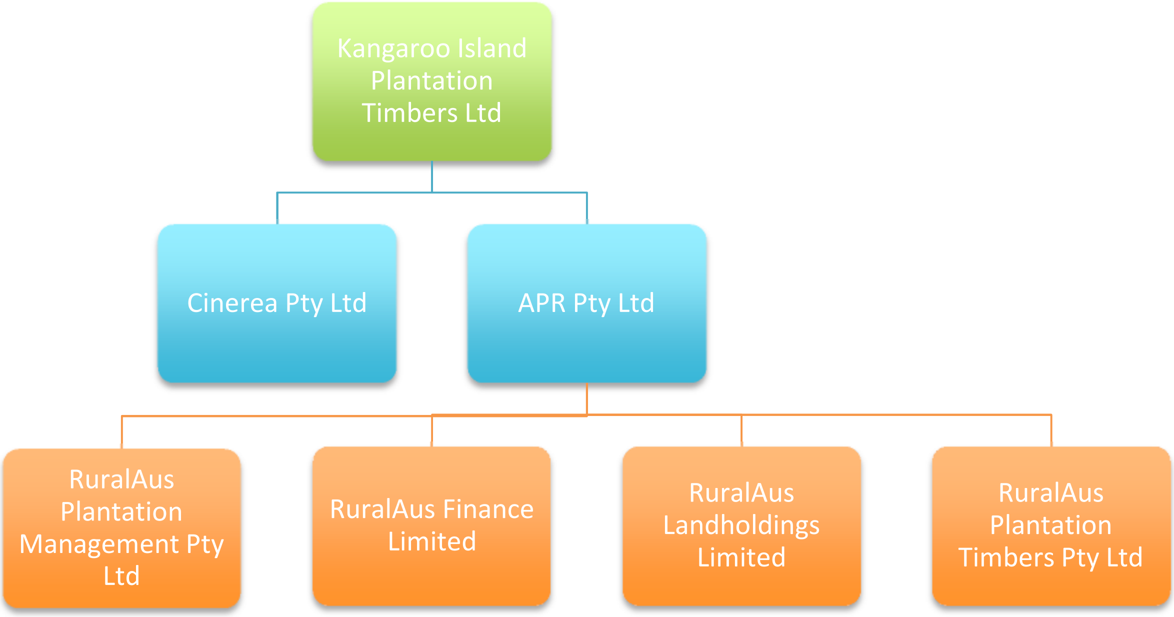
There have been no significant changes in the nature of those activities during the year.

Corporate information

Corporate structure

Kangaroo Island Plantation Timbers Ltd is a publicly listed company that is incorporated and domiciled in Australia. Kangaroo Island Plantation Timbers Ltd has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the Group's corporate structure:

Directors' Report (continued)



Employees

The consolidated entity employed 3 employees at 30 June 2016 (2015: 2 employees).

Operating and financial review

Group overview

The Company began the year with three strategic goals, namely:

1. Develop a wharf, either alone or in conjunction with other Kangaroo Island timber owners
2. Pursue a trade sale to a party willing to develop a route to market for the Company's timber
3. Pursue cost-efficient operations

During the course of the year, it became clear that the best return for shareholders was likely to be gained by pursuing the first of these as a priority, simply because, without a wharf (and ideally a wharf of its own) the Company would remain beholden to others and unable to monetize its substantial timber holdings. Accordingly, the Company committed to developing, as rapidly as possible, into a sustainable timber-growing business with harvest income, gained from exports across a wharf, ideally at its Smith Bay site.

The Company now considers the development of wharf infrastructure that allows exploitation of the substantial standing timber resource to be virtually inevitable.

Even so, the Company has maintained its policy of valuing its standing timber at $0, primarily on the basis that there is currently no deep-water wharf on Kangaroo Island, through which the timber could be exported to markets in Asia, and neither is there yet a single proposal and a firm timetable for the permitting and construction of such a wharf.

The valuation basis for the Company's land is on the basis of its non-forestry (i.e. agricultural) use.

In the event that the Board considers that the situation has altered materially, such that a deep water wharf with known costs and with a high probability of approval and construction is more likely than not, the Board will review its valuation approach.

The Company continues to work on wharf development and believes the time is approaching when it will no longer be appropriate to use its present valuation basis.

Directors' Report (continued)

Operating and financial review (continued)

Results of operations

Revenue for the period decreased by $15,000 to $85,000 (2015: $100,000), while other income increased by $86,000 to $100,000 (2015: $14,000).

During the period the fair value of investment properties loss amounted to $nil (2015: $77,000) and the loss on sale of property, plant and equipment amounted to $34,000 (2015: $13,000).

Net comprehensive loss for the period was $2,696,000. This is a $1,730,000 increase from last year's loss of $966,000. The increase is primarily due to:

- performance rights AASB 2 *Share-based Payment* valuation of $1,623,000 (2015: $nil);
- wharf feasibility costs increasing by $311,000;
- higher ASX and registry fees $71,000;
- additional consulting fees $43,000;
- higher plantation costs $59,000; offset by
- increase in fair value of property, plant and equipment by $135,000; and
- lower change in fair value of investment property, by $77,000;
- other income increased by $86,000; and
- tax benefit increase of $58k as a result of the increase in fair value property, plant and equipment.

Corporate Operations

During the year, the Company issued 33,206 (2015: 37,482):

- in lieu of $112,500 of directors' fees for the year ended 30 June 2016;
- in lieu of $40,834 of directors' fees for the prior year ended 30 June 2015;
- to employees under ESOS totaling $2,000 for the year ended 30 June 2016;
- in lieu of consulting fees of $2,000 for the year ended 30 June 2016; and
- to remove an encumbrance on a property $96,671.

Performance indicators

	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Revenue from ordinary activities from continuing operations	**85**	100	55	461
Revenue from ordinary activities from continuing and discontinued operations	**85**	100	55	1,335
Loss from ordinary activities	**(2,831)**	(966)	(1,231)	(1,302)
Loss from discontinued operations	**-**	-	-	(852)
Loss attributable to members for the period	**(2,831)**	(966)	(1,231)	(2,154)
Other comprehensive income	**135**	-	240	635
Total comprehensive loss after tax	**(2,696)**	(966)	(991)	(1,519)
Basic earnings per share	**(166) cents**	(58) cents	(100) cents	(959) cents
Net tangible asset backing per security	**731 cents**	793 cents	861 cents	1,203 cents

Significant changes in the state of affairs

The strategic changes affecting the Company and its subsidiaries are set out in Group Overview.

There have been no other significant changes in the state of affairs of the Group.

Directors' Report (continued)

Significant events after balance date

In August 2016, the Company announced the appointed Adelaide-based firm Wallbridge and Gilbert, consulting engineers, to carry out a traffic impact and route assessment study on Kangaroo Island.

In July 2016, the Company announced that two separate ecological studies had commenced at its proposed Smith Bay multi-user wharf site on the north coast of Kangaroo Island. The first, a marine study, will be undertaken by SEA Pty Ltd, an Adelaide-based firm. The second study, a terrestrial ecology survey, will be undertaken by South Australian firm EBS Ecology, using a Kangaroo Island-based ecologist.

On the 18th January 2016 the Company announced a Performance Rights Plan, subject to Shareholder approval. On the 18 January 2016 the Company's share price was $12.60. The $15.00 and $20.00 VWAP share price hurdles, being Condition 1, under the Plan have been reached as at the date of this Report, resulting in the following 130,001 performance rights to be issued after the Annual General Meeting, if approved by Shareholders and performance Condition 2 is met. Condition 2 requires that the share price is equal to or greater than the original VWAP threshold value (being $15.00 and $20.00 respectively) at the date the shares are issued:

- John Sergeant rights:
  - On 30 May 2016 35,000 shares at a VWAP value of $525,000; and
  - On 1 August 2016 30,000 shares at a VWAP value of $600,000.
- Paul McKenzie rights:
  - On 30 May 2016 11,667 shares at a VWAP value of $175,005; and
  - On 1 August 2016 10,000 shares at a VWAP value of $200,000.
- Graham Holdaway rights:
  - On 30 May 2016 11,667 shares at a VWAP value of $175,005; and
  - On 1 August 2016 10,000 shares at a VWAP value of $200,000.
- Shauna Black rights:
  - On 30 May 2016 11,667 shares at a VWAP value of $175,005; and
  - On 1 August 2016 10,000 shares at a VWAP value of $200,000.

During the year ended 30 June 2016 Performance Right valued at $1,622,729 based on AASB 2 *Share-based payments*, have been recognised.

There have been no other significant events after balance date.

Likely developments

The Group will continue to pursue its principal activities, being forestry and the production of timber on Kangaroo Island.

The Company remains committed to working with other timber producers on Kangaroo Island, and with local and state government, to develop a new deep water wharf on Kangaroo Island.

Diversity Report

Introduction

The following is the Diversity Report for the financial year ended 30 June 2016 for Kangaroo Island Plantation Timbers Ltd ("the Company") prepared for the purposes of the Company's Annual Report for the year ended 30 June 2016.

Diversity Policy

The ASX introduced a requirement for all listed companies to adopt a Diversity Policy and a Diversity Strategy by no later than 30 June 2011, to disclose those documents to the shareholders, and to report to the shareholders each year on the current diversity position in the Company including culture, gender and age, and the progress towards achievement of the strategy objectives.

Directors' Report (continued)

Diversity Report (continued)

The Diversity Policy is based upon the recommendations of the ASX and the Australian Institute of Company Directors ("AICD") and as such will include requirements that may not be appropriate for a small company such as Kangaroo Island Plantation Timbers Ltd. As with all matters included in the ASX Corporate Governance Principles and Recommendations, any recommendation that is not considered appropriate for the Company will be disclosed on an "if not why not" basis. The Policy is outlined in the Statement of Corporate Governance which is available on the Company's web site.

Responsibility

The Remuneration Committee (if formed, otherwise the Board) is charged with the responsibility for implementation of the Diversity Policy and the oversight of the Diversity Strategy progress and delegates that responsibility to the CEO. The Company Secretary is charged with the responsibility for reporting to the Committee each year in accordance with the requirements of the Policy.

Current Position

As at 30 June 2016 there is an aggregate of 8 staff including Directors, employees and contractors (full and part time) in the Company. Of the aggregate 3 are female (including a non-Executive Director and the Chief Financial Officer), 1 is of different ethnic or cultural background, and nil are mature age. Consequently, it could be said that the Company is already harnessing the benefits of a diverse workforce. A number of diversity objectives were not implemented by the Group at this stage given its size and low staff numbers. These are set out in the table below.

Diversity Strategy

The Diversity Strategy is also based upon the recommendations of the ASX and the AICD and sets various strategies, initiatives and programs designed to as far as possible achieve the aims and objectives of the Diversity Policy.

The current position with each of the strategy items and the time frame for achievement or otherwise is listed in the following Table 1:

Table 1

Strategy, initiative or program	By when	Current position
Phase 1 – Strategies		
1.1(a) The development and adoption of the Policy	June 2013	Completed
1.1(b) Embody within the Statement of Corporate Governance	June 2013	Completed
1.1(c) Assignment of responsibility	June 2013	Completed
Phase 2 - Initiatives and Programs		
At Board / board Committee Level		
1.2(a)(i)(A) Diversity is embedded as a relevant attribute	June 2013	Completed
1.2(a)(i)(B) Any skill / gap analysis matrix includes due regard for the attributes of diversity	As required	Will be prepared when required
1.2(a)(i)(C) Clear statement exists as to the mix of skills and diversity that the Board is looking to achieve	June 2013	Stated below and Included in the Charter for the Board of Directors
1.2(a)(ii) When addressing Board succession planning	June 2013	Included in the Charter for the Board of Directors
1.2(a)(iii) Inclusion of Diversity related KPIs for CEO and senior executives	June 2013	N/A given the size of Group and number of staff
1.2(b)(i) Review the Company's HR policies	June 2013	N/A given the size of Group and number of staff

Directors' Report (continued)

Diversity Report (continued)

Strategy, initiative or program	By when	Current position
1.2(b)(ii) Review the Company's physical environment & cultural practices to ensure compliance with the Policy	June 2013	N/A given the size of Group and number of staff
1.2(b)(iii) Ensure that the Company's recruitment practices follow the Policy requirements	As required	Will be prepared when required
1.2(c)(i) Commit to career development	June 2013	N/A given the size of Group and number of staff
1.2(c)(ii) Develop standing program and provide budget for career development	Annual	As required

Notes:

- The size and nature of the group limits the number of initiatives and programs that are viable. This will be reviewed as the group changes.

- It should be noted that the ASX recognises that there is an historical "skewed' pipeline of qualified and experienced personnel in the market and accordingly the gender diversity targets must be regarded as "soft" and subject to the overriding caveat stated at Item 8 in the Diversity Policy. The gender diversity targets are detailed at Item 2(c) of the Diversity Strategy.

> "Since good governance principles require independence, transparency, diversity and flexibility, the Board acknowledges the importance of Board structure and, as a consequence, the Board seeks to use the following provisions as guidance when implementing an effective governance structure in the Company."

Board Skills
The Board should contain a relevant blend of expertise and diversity attributes (refer to corporate governance statement for further information) as appropriate for a Company of its size in:

- Forestry
- Accounting;
- Finance;
- Business;
- Financial instruments;
- Legal matters (especially when not present in the Company Secretary); and
- Marketing.

Diversity at Board Level and Generally
The Board respects the values and the competitive advantage of culture, gender, ethnicity and age "diversity", and the benefits of its integration throughout the Group. The Board has adopted a specific Diversity Policy in order to enrich the Group's perspective, improve corporate performance, increase shareholder value, and enhance the probability of achievement of the Group's objectives.

When addressing Board succession planning (and other appointments throughout the Company) the Board has ensured that the Diversity Policy is respected, efforts are made to identify prospective appointees who have Diversity attributes and efforts are made for any short list of prospective appointees to include at least one male and one female candidate."

Compliance
Having regard to the size of the Group and the nature of its business, it is considered that the Company complies as far as possible with the spirit and intentions of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations in respect to diversity.

Directors' Report (continued)

Environmental regulation and performance

The Group's operations are subject to environmental regulations pursuant to the conditions of tree farm planning permissions and the requirements of planning and regulatory approvals of local government councils. The Group also operates under environmental legal and licence requirements governing its sawmill. To the best of the directors' knowledge, the Group has complied with all environmental regulations relating to its activities during the year.

Indemnification and insurance of directors and officers

During the financial year the controlled entity, on behalf of the Group, paid insurance premiums in respect of directors' and officers' liability insurance against liability, except wilful breach of duty, of a nature that is required to be disclosed under section 300(8) of the Corporations Act 2001. In accordance with the insurance policy, further details of the nature of the liabilities insured against and the amount of the premium are prohibited from being disclosed.

Proceedings of behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Directors' meetings

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

	Number of Directors Meetings Held while in office	Directors Meetings Attended	Number of Audit & Risk Meetings Held while in office	Audit & Risk Meetings Attended
Paul McKenzie	14	14	3	3
John Sergeant	14	14	n/a	n/a
Shauna Black	14	14	3	3
Graham Holdaway	14	14	3	3

Committee membership

As at the date of this report, the Company had an Audit and Risk Committee of the Board of Directors. Mr Holdaway is the Chair and the majority of members are independent non-executive directors.

In view of the size of the parent entity, the directors have considered that establishing a nomination and remuneration committee would contribute little to its effective management and accordingly all directors participate in decisions regarding the nomination and election of new Board members.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 2016/191. The Company is an entity to which the Class Order applies.

Directors' Report (continued)

Auditor independence and non-audit services

The directors have received the auditor's independence declaration, which is included on page 20 of this report. The declaration forms part of the Directors' report.

No director of the Group is currently or was formerly a partner of Grant Thornton Audit Pty Ltd.

Non-Audit Services
Grant Thornton Audit Pty Ltd were appointed as auditors on 28 August 2013 and the appointment confirmed by shareholders at a General Meeting held on 28 August 2013.

During the year, Grant Thornton, the Company's auditors, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact upon the impartiality and objectivity of the auditor; and

The non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The amounts received or due and receivable by Grant Thornton Audit Pty Ltd for:

	Consolidated	
	2016	2015
	$	$
An audit or review of the financial report of the entity and any other entity in the consolidated entity		
Grant Thornton	**34,000**	28,000
Taxation services Grant Thornton	**10,318**	3,000
	44,318	31,000

Remuneration report (audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

For the purpose of this report, the term "executive" encompasses the Managing Director and Chief Financial Officer of the Parent and the Group.

Shareholders AGM votes on Remuneration Report

Kangaroo Island Plantation Timbers Ltd received 94% of 'yes' votes cast on a poll in respect of its Remuneration Report for the financial year ending 30 June 2015. The Company received no specific feedback on its Remuneration Report at the Annual General Meeting.

Directors' Report (continued)

Remuneration report (audited) (continued)

Key management personnel

Key management personnel are as follows:

Directors

Paul McKenzie (appointed 29 April 2005)	Chairman - Non-executive Director
John Sergeant (appointed 2 March 2013)	Managing Director (since 1 January 2015)
Shauna Black (appointed 17 March 2015)	Independent Non-executive Director
Graham Holdaway (appointed 17 March 2015)	Independent Non-executive Director

Executives

Victoria Allinson (appointed 14 May 2013)	Company Secretary, Chief Financial Officer

There have been no changes to Key Management Personnel after the reporting date and before the date the financial accounts were authorised for issue.

Remuneration committee

In view of the size of the parent entity, the directors have considered that establishing a nomination and remuneration committee would contribute little to its effective management and accordingly all directors participate in decisions regarding the nomination and election of new Board members.

The Board of Directors of the company is responsible for determining and reviewing remuneration arrangements for the directors and executives.

The Board of Directors assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team.

The Board of Directors met once during the year to consider specific remuneration matters; the Board did not use the professional services of Remuneration Consultants during the year.

Remuneration philosophy and structure

The Company has structured remuneration packages for its executives and directors in order to attract and retain people with the necessary qualifications, skills and experience to assist the Company in achieving its desired results.

The following table shows the net tangible asset per share, earning per share and share price of the Group for the past 6 years:

	Net tangible assets per share	Earnings per share	Share price at 30 June
2016	$7.31	($1.663)	$16.00
2015	$7.93	($0.582)	$7.41
2014	$8.61	($1.002)	$3.00
2013	$12.03	($0.959)	$2.00
Pre share consolidation			
2013	$0.02	($0.002)	$0.004
2012	$0.21	($0.062)	$0.06
2011	$0.31	($0.028)	$0.16

Remuneration is usually reviewed on an annual basis, taking into consideration both qualitative and quantitative performance indicators, with reference to industry benchmarks.

Directors' Report (continued)

Remuneration report (audited) (continued)

A review of the amount of remuneration has not been conducted in the period of this annual report. The Board are of the opinion that remuneration should only be changed once the Group's strategic plans are further developed, as a result the next AGM will see a proposed change in the structure of remuneration to allow flexibility when the Company's strategic plans are advanced. The Board will request shareholders approval at the next AGM to pay directors fees in cash rather than partly in shares. In addition, the Company announced a Performance Rights Plan in January 2016, this together with a proposed increase in the total Non-Executive Remuneration cap to $400,000, will be subject to shareholder approval at the 2016 AGM. However, the Board has no intention to increase either the size of the board or the level of non-executive directors' remuneration until there are material changes in the Company's circumstances.

Overall performance of the directors and the two executives of the Company are considered against:

- Timely production of Company accounts and records;
- Management of the portfolio of loans against acceptable write off and performance standards;
- Maintenance/improvement of the Net Tangible Assets of the Company;
- Control of costs;
- Investor relations
- Assessment of new opportunities; and
- Employee performance.

Performance is reviewed on an annual basis; the last review was undertaken in July 2016.

Remuneration reviewed by the Board (unless a Remuneration Committee is established) and is set at around the mid-point for professional personnel as measured by knowledge of the members of the Remuneration Committee and augmented by reference to reports produced by professional Human Resources consultants.

Remuneration of Key Management Personnel ('KMP')

Details of the nature and amount of each element of the remuneration of each Key Management Personnel ('KMP') of the Company are shown in the table below:

	Year	Short term			Post employment	Long term	Share-based payment		
		Salary & fees $	Cash bonus $	Other non-monetary benefits $	Super $	Long service leave $	Executive share & Rights Plan[9] $	Shares $	Total $
Non-Executive Directors									
P McKenzie[1]	**2016**	**25,000**	**-**	**-**	**-**	**-**	**270,455**	**25,000**	**320,455**
	2015	-	-	-	-	-	-	62,500	62,500
F Woollard[2]	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2015	-	-	-	-	-	-	35,833	35,833
J Sergeant[3]	**2016**	**21,153**	**-**	**-**	**3,847**	**-**	**-**	**25,000**	**50,000**
	2015	-	-	-	-	-	-	50,000	50,000
S Black[4]	**2016**	**21,153**	**-**	**-**	**3,847**	**-**	**270,455**	**25,000**	**320,455**
	2015	14,167	-	-	-	-	-	-	14,167
G Holdaway[5]	**2016**	**25,000**	**-**	**-**	**-**	**-**	**270,455**	**25,000**	**320,455**
	2015	14,167	-	-	-	-	-	-	14,167
Total	**2016**	**92,306**	**-**	**-**	**7,694**	**-**	**811,365**	**100,000**	**1,011,365**
	2015	28,334	-	-	-	-	-	148,333	176,667

Remuneration report (audited) (continued)

	Year	Short term (a)			Post employment	Long term	Share-based payment		
		Salary & fees $	Cash bonus $	Other non-monetary benefits $	Super $	Long service leave $	Executive share & Rights Plan[9] $	Shares $	Total $
Executive Director									
J Sergeant[6]	**2016**	**10,576**	**-**	**-**	**1,924**	**-**	**811,364**	**12,500**	**836,364**
	2015	12,500	-	-	-	-	-	-	12,500
Other KMP									
J Domaschenz[7]	**2016**	**-**	**-**	**-**	**-**	**-**	**-**	-	-
	2015	12,840	-	-	-	-	-	-	12,840
V Allinson[8]	**2016**	**80,740**	**-**	**-**	**-**	**-**	**-**	**2,000**	**82,740**
	2015	63,764	-	-	-	-	-	1,000	64,764
Total	**2015**	**183,622**	**-**	**-**	**9,618**	**-**	**1,622,729**	**114,500**	**1,930,469**
	2014	117,438	-	-	-	-	-	149,333	266,771

Notes:

(1) During the year 3,125 (2015: 15,625) ordinary shares were issued in lieu of $25,000 (2015: $62,500) Non-Executive Directors Fees, to Aminac Pty Ltd ATF Agrarian Management S/F A/C of which Mr McKenzie is the Managing Director.

(2) During the prior year, Mr Woollard's resignation was issued 8,958 ordinary shares in lieu of $35,833 Non-Executive Directors Fees, to JP Morgan Australia Ltd as custodian of the Samuel Terry Absolute Return Fund, Fred Woollard is the Managing Director of Samuel Terry Assets Management Pty Ltd as trustee for Samuel Terry Absolute Return Fund.

(3) During the year 3,125 (2015: 12,500) ordinary shares were issued to Mr Sergeant in lieu of $25,000 (2015: $50,000) Non-Executive Directors Fees.

(4) During the year 6,667 share have been issued to Ms Black:
  a. 3,542 of the ordinary shares related to the period from her appointment to 30 June 2015, Non-Executive Director's fees amounted to $14,167, accrued in the prior year as salary & fees, as subject to security holders' approval at 2015 AGM; and
  b. 3,125 of the shares related to non-executive fees for the year ended 30 June 2016 of $25,000.

(5) During the year 6,667 ordinary shares have been issued to Mr Holdaway:
  a. 3,542 of the ordinary shares related to the period from her appointment to 30 June 2015, Non-Executive Director's fees amounted to $14,167, accrued in the prior year as salary & fees, as subject to security holders' approval at 2015 AGM; and
  b. 3,125 of the shares related to non-executive fees for the year ended 30 June 2016 of $25,000.

(6) Mr Sergeant was appointed Managing Director on 1 January 2015. His annual director's fees comprise of $50,000 Director's fee and $25,000 Executive fee. During the year ended 30 June 2016:
  a. 3,125 of ordinary shares were issued in respect of $12,500 of executive directors fees for the year ending 30 June 2015, accrued in the prior year as security holders' approval at 2015 AGM; and
  b. 1,563 ordinary shares were issued in lieu of executive fees for the year ending 30 June 2016 of $12,500

(7) Jessica Domaschenz provided professional forester services from May 2013 and was appointed as CEO on 12 July 2013 and resigned effective 24 February 2015. During the year $nil (2015: $12,840) of processional services were invoices by Forestech Management Pty Ltd, of which Jessica Domaschenz was an employee.

Directors' Report (continued)

Remuneration report (audited) (continued)

(8) Victoria Allinson was appointed as CFO and Company Secretary on 14 May 2013. During the year, the professional accounting, administration and company secretarial fees of $ $82,740 (2015: $64,764) were invoiced by Allinson Accounting Solutions Pty Ltd, of which Victoria Allinson is Managing Director and shareholder. The services are provided by Ms Allinson and her employee. During the year, $2,000 of invoiced fees were paid in shares, the remaining $80,740 (2015: $63,764) were paid or payable.

(9) During the year the Board announced Performance Rights Plan that is subject to Shareholder approval. The Rights have been valued based on AASB 2 *Share-based Payment*, further details are set out below.

No options were granted as part of remuneration during the year.

Performance Rights Plan

In January 2016 the Board determined that, at the next general meeting of the Company, it would seek Shareholder approval to augment directors' existing remuneration through the issue of performance rights, triggered by meeting the following two conditions:

Condition 1. a volume-weighted average price (VWAP) threshold of the Company's Shares; and

Condition 2. the share price must be equal to or greater than the original VWAP threshold share price (being $15.00, $20.00 and $25.00 as set out below) at the date the shares are issued.

A summary of the Performance Rights proposed is shown below:

20 Business Day VWAP	*Shares to be issued to Managing Director Number.*	*Shares to be issued per Non-Executive Director Number.*	*Total Shares to be issued Number.*	*Escrow period*
$15.00 or above	35,000	11,667	70,001	n/a
$20.00 or above	30,000	10,000	60,000	n/a
$25.00 or above	25,000	8,333	49,999	12 months
Total	**90,000**	**30,000**	**180,000**	

The terms of the proposed Performance Rights Plan ("Plan") involves the issue of Shares that will rank equally with all other existing Shares in all respects including voting rights and entitlement to participate in dividends and in future rights and bonus issues.

In addition, a Plan participant must not dispose of any Shares acquired under the Plan before the end of the restriction period (if any) which are subject to the Plan rules and the terms of the specific offer from time to time

The Plan was developed by the Board and their intentions were announced to the market on 18 January 2016. The Board have included the additional Condition 2 over the terms announced in January 2016 in order to protect shareholders if the share price falls, subsequent to the VWAP threshold being met.

The rationale for the Plan was, and is, to provide the Managing Director and the Non-Executive Directors of the Company with increased remuneration in recognition of the additional duties of the respective directors, and to incentivize them to align their interests more closely with those of shareholders. While the Company's share price had begun to better reflect the underlying value of its assets, there remained a substantial valuation gap that might be realised if a sustainable forestry industry structure could be created on Kangaroo Island

Remuneration report (audited) (continued)

At the time the proposed Plan was announced, there were two fundamental uncertainties facing the Company:

- Could a wharf allowing cost efficient export of forest products be built anywhere on Kangaroo Island? and
- If the wharf were to be built by a party other than the Company, could it obtain access on fair and reasonable terms?

The Directors had in place strategies aimed at resolving each of these questions in a way that optimises benefits to Shareholders, but the resolution of these matters remained highly uncertain. The Plan was aimed at motivating efforts to resolve these matters to the Company's advantage.

The Directors considered calling an immediate Extraordinary General Meeting to have the Plan approved by Shareholders. It decided that the cost of doing so was not justified and determined to take the Plan to the AGM in October. The objective of the Plan and the Rights announced on 18 January 2016 is to create a stronger link between executive and employee performance and reward and increasing shareholder value through the provisions of the plan.

On the 18th January 2016 the Company's share price was $12.60.

Since then (and as at the date of this notice), the $15.00 and $20.00 20-day VWAP share price Condition 1 hurdles have been met, resulting in the following 130,001 performance rights to be issued, subject to Shareholder approval of the Plan and the share price being equal to or greater than the VWAP threshold value at the date the shares are issued, being Condition 2:

- John Sergeant rights:
  - On 30 May 2016 35,000 shares; and
  - On 1 August 2016 30,000 shares.
- Paul McKenzie rights:
  - On 30 May 2016 11,667 shares; and
  - On 1 August 2016 10,000 shares.
- Graham Holdaway rights:
  - On 30 May 2016 11,667 shares; and
  - On 1 August 2016 10,000 shares.
- Shauna Black rights:
  - On 30 May 2016 11,667 shares; and
  - On 1 August 2016 10,000 shares.

Valuation of Performance Rights

AASB 2 *Share-Based Payment* requires that the Company record the cost of all forms of Director remuneration in the Company's accounts and sets out parameters for determining this cost. Refer to Note 28 for further details

AASB 2 sets the valuation date (termed as Grant Date) as the date at which such a right has been finally approved. Because the Directors did not seek immediate ratification of the Plan this approval date will be 5 October 2016 - the date of the AGM.

This produces an unusual set of circumstances, in that the triggers for two of the tranches have already been met and some of the uncertainty that existed when Directors settled on the Plan has subsequently been resolved. The effect of this is that the recorded value is very much higher than it would have been if the Grant Date had been when the Directors advised the market of the proposed Plan. The two valuations are set out in the table below.

	AASB 2 valuation			January 2016 valuation
20 Business Day VWAP	**Expenses recognised 30 June 2016 $**	**Expense estimated 30 June 2017 $**	**Total valuation $**	**Total $**
Total	**1,622,729**	**959,783**	**2,582,512**	**531,250**

Directors' Report (continued)

Remuneration report (audited) (continued)

The Directors believe the January 2016 valuation more correctly reflects the cost to the Company of the Plan, but accepts that use of Accounting Standards is a fundamental requirement of Listed companies and has used the AASB 2 valuation in its Annual Report.

Non-executive director remuneration

Objective
The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure
The total amount paid to non-executive directors is determined by the Board from time to time for presentation to and resolution by shareholders at the Annual General Meeting. The current maximum aggregate remuneration paid to non-executive directors is fixed at $300,000 pa. The Board propose an increase in the maximum aggregate remuneration paid to non-executive directors to $400,000, which will be subject to shareholder approval at the 2016 AGM

The non-executive directors are paid a set amount per year. They are not eligible for any additional payments, other than reimbursement of expenses incurred on behalf of the Group. No director is employed under contract.

In the year ended 30 June 2016, non-executive fees amounted to $50,000 for each director (prior to 17 March 2015: $50,000 for each director and Chair $75,000). The fees are all paid 50% in cash and 50% by shares in lieu of cash.

During the year, the directors signed contracts setting out their obligations and remuneration. In addition, a Performance Plan was announced in January 2016, subject to security holders' approval.

Director performance reviews are in the form of informal annual self-review and discussion with the other directors led by the Chairman.

Executive remuneration

Objective
The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities with the Company so as to:

- Align the interest of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Structure
The Company has reviewed its staffing requirements as part of the strategic restructure, resulting in no current change to the number of staff employed: three employees, including the Managing Director, at the date of this report. Two employees are based on Kangaroo Island.

The Company's Chief Financial Officer ("CFO") Victoria Allinson and Chief Executive Officer ("CEO") Jessica Domaschenz (resigned 24 February 2015) all provided their services as contractors:

- Allinson Accounting Solutions Pty Ltd is engaged to provide the Company's financial, administrative and company secretarial functions; and
- Forestech Management Pty Ltd was engaged to provide the CEO services of Jessica Domaschenz.

The Managing Director, John Sergeant's remuneration comprises:

- Non-executive fees of $50,000 (2015: $50,000) per annum, refer to non-executive directors' remuneration above for further details; and
- Executive fees of $25,000 (2015: $nil) per annum.

Directors' Report (continued)

Remuneration report (audited) (continued)

The Managing Director signed an employment contract setting out his obligations and remuneration. In addition, a Performance Plan was announced in January 2016, subject to security holders' approval, see below for further details.

There were no termination obligations with any of the executives. The total amount paid to executives is determined by the Board on an annual basis as part of the annual performance review of executives conducted by the Board based on KPI's set by the Board each year for the executives. The amount of salary and fees and the payment of cash bonuses, if any, are at the Board's ultimate discretion.

Shareholdings of key management personnel

	Beginning of period	Granted as remuneration	Net change other	End of period
30 June 2016				
Directors				
Paul McKenzie(1)	145,235	3,125	-	148,360
Shauna Black(2)	-	6,667	-	6,667
Graham Holdaway(3)	30,700	6,667	-	37,367
Managing Director				
John Sergeant(4)	99,227	7,813	-	107,040
Executives				
Victoria Allinson(5)	1,191	66	-	1,257
	276,353	24,338	-	300,691

(1) During the year 3,125 (2015: 15,625) shares were issued in lieu of Mr McKenzie director's fees totaling $25,000. 129,610 of these shares are held by Aminac Pty Ltd AFT Agrarian Management S/F A/C of which Mr McKenzie is the managing Director; and 18,750 ordinary shares are held by Agrarian Consulting Pty Ltd <Paul McKenzie family A/C) of which Mr McKenzie is the Managing Director.

(2) During the year 6,667 (2015: nil) shares were issued in lieu of Ms Black's director's fees totaling $39,167.

(3) During the year 6,667 (2015: nil) shares were issued in lieu of Mr Holdaway's director's fees totaling $39,167. 6,667 shares are held Holdaway & Holdaway Pty Ltd of which Mr Holdaway is a directors and shareholder; and 30,700 shares are held by Mr Graham Ian Holdaway and Mrs Kristina Holdaway <G & K Super Fund A/C>. Mr Holdaway has effective control of his self-managed superannuation fund.

(4) During the year 7,813 (2015: 12,500) shares were issued in lieu of Mr Sergeant's director's fees totaling $50,000. The shares are held by:

    i. Direct interest 32,924
    ii. Phalaenopsis Pty Ltd <ATF Sergeant Family Trust> 47,356 shares
    iii. Sergeant Family Superannuation Fund 25,760. Mr Sergeant has effective control of his self-managed superannuation fund.
    iv. Ms J Sergeant holds 1,000 shares. Ms Sergeant is Mr Sergeant's wife.

(5) Victoria Allinson was appointed as CFO and Company Secretary on 14 May 2013. These shares were issued to Allinson Family Trust, of which Victoria Allinson is a trustee and beneficiary. The 66 (2015: 133) shares were in payment of professional fees invoices by Allinson Accounting Solutions Pty Ltd.

Option holdings of key management personnel

There are no option holdings for the Group.

Directors’ Report (continued)

Remuneration report (audited) (continued)

Related party transactions

	Consolidated	
	2016	2015
	$	$
Directors transaction		
Income: Annual lease payment(1)	**23,483**	23,222
Expense: Loan interest(2)	**-**	10,319
Liability: Loan agreement(2)	**500,000**	-
Liability: Lease payment received in advance(1)	**23,648**	23,483

(1) The Lease agreement between Graham Holdaway and the Group commenced on 30 June 1999. The lease is for 187.60 hectares of Land known as “Gosse East’ and has a term of 25 years. Annual rent for 30 June 2016 is $23,483 (2015: $23,222) is fully paid. The rent paid in advance for year ended 30 June 2017 amounts to $23,648 (30 June 2016: $23,483) excluding GST.

(2) In June 2016, Aminac Pty Ltd as Trustee for Agrarian Management Super Fund, an entity associated with the Chair of the Company, Mr Paul McKenzie agreed to lend $500,000 to the Company in the current financial year and to provide a loan facility up to a further $50,000. $500,000 of the loan was drawn down in June 2016. Interest will be changed at a rate of 8% per annum. The loan is secured by a first ranking mortgage over two of the Company’s properties, known as Brookland Park CT Volume 5813 Folio 274 and Yerda North CT Volume 5959 Folio 964 (total book value $1,139,342).

During the year ended 30 June 2014, Agrarian Consulting Pty Ltd, a company controlled by Paul McKenzie, a non-executive director of the Company entered into a loan agreement. The loan totalled $300,000 with the initial draw down in November 2013. Interest was charged at 9% per annum payable on the maturity date. The loan’s maturity date of 28 February 2014 was extended to 1 June 2014 and was secured on the land know as Kelly East (CT Volume 5959 Folio’s 961 and 965 has a carrying value of $692,000). The loan of $310,319 including interest was repaid in full in May 2014.

End of Remuneration Report

Share options

As at the date of this report, there were no options issued.

Signed in accordance with a resolution of the directors

Paul McKenzie
Chairman

Dated this 29th day of August 2016

Grant Thornton

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF KANGAROO ISLAND PLANTATION TIMBERS LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Kangaroo Island Plantation Timbers Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S K Edwards
Partner - Audit & Assurance

Adelaide, 29 August 2016

Corporate Governance Statement

Kangaroo Island Plantation Timbers Ltd ("Company") and the Board of Directors are responsible the Corporate Governance of the Group and is committed to achieving the highest standard of Corporate Governance, business integrity and professionalism with due regard to the interests of all stakeholders. The Board guides and monitors the business and affairs of the Group on behalf of the shareholders by whom they are elected and to whom they are accountable.

As such, the Company have adopted the third edition of the *Corporate Governance Principles and Recommendations* which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Group's Corporate Governance Statement for the financial year ending 30 June 2016 is dated 21 June 2016 and was adopted by the Board on that date. The Corporate Governance Statement is available at www.kipt.com.au.

Financial Report

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016

	Notes	Consolidated 2016 $'000	2015 $'000
Management fees		**6**	29
Operating lease – land	6a	**38**	51
Operating lease - Equipment hire	6a	**31**	8
Bank interest		**10**	12
Revenue		**85**	100
Cost of sales		**-**	-
Gross profit		**85**	100
Change in fair value of investment property		**-**	(77)
Other income	6b	**100**	14
(Loss)/Profit on assets sold	6c	**(34)**	(13)
Forestry expenses		**(310)**	(289)
Wharf feasibility costs		**(367)**	(56)
Administrative expenses		**(52)**	(61)
Other expenses	6d	**(2,311)**	(573)
Finance costs	6e	**-**	(11)
Loss before income tax		**(2,889)**	(966)
Income tax benefit/(expense)	7	**58**	-
Net loss for the year		**(2,831)**	(966)
Discontinuing operations			
Other comprehensive income			
Items that will not be classified subsequently to profit or loss			
Net fair value gain in property, plant and equipment		**135**	-
Other comprehensive income for the year net of tax		**135**	-
Total comprehensive loss for the year attributable to members of the parent		**(2,696)**	(966)
		EPS in cents	EPS in cents
Basic earnings per share	8	**(166)**	(58)
Diluted earnings per share	8	**(166)**	(58)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	Consolidated 2016 $'000	2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**895**	938
Trade and other receivables	10	**73**	13
Other current assets		**-**	5
		968	956
Assets classified as held for sale	11	**200**	367
Total current assets		**1,168**	1,323
Non-current assets			
Property, plant and equipment	12	**12,145**	12,086
Investment properties	13	**100**	100
Biological assets	14	**-**	-
Other non-current assets		**5**	5
Total non-current assets		**12,250**	12,191
TOTAL ASSETS		**13,418**	13,514
LIABILITIES			
Current liabilities			
Trade and other payables	15	**332**	116
Employee benefits	16	**29**	22
Interest-bearing liabilities	17	**500**	-
Total current liabilities		**861**	138
Total non-current liabilities		**-**	-
TOTAL LIABILITIES		**861**	138
NET ASSETS		**12,557**	13,376
EQUITY			
Contributed equity	18	**13,037**	12,783
Reserves	19	**5,353**	3,595
Accumulated losses		**(5,833)**	(3,002)
TOTAL EQUITY		**12,557**	13,376

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Notes	Consolidated 2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers		**263**	105
Payments to suppliers and employees		**(986)**	(617)
Interest received		**10**	12
Borrowing costs		**-**	(11)
Net cash flows (used in) operating activities	22	**(713)**	(511)
Cash flows from investing activities			
Proceeds from sale of investment properties		**170**	799
Proceeds from sale of plant and equipment		**-**	5
Purchase of plant and equipment		**-**	(1)
Net cash flows from investing activities		**170**	803
Cash flows from financing activities			
Repayment of borrowings		**-**	(58)
Proceeds from borrowings		**500**	-
Net cash flows from/(used in) financing activities		**500**	(58)
Net increase in cash and cash equivalents		**(43)**	234
Cash and cash equivalents at beginning of year		**938**	704
Cash and cash equivalents at end of year	9	**895**	938

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2016

	Issued Capital $'000	Treasury Shares $'000	Property, plant & equipment Revaluation Reserve	Option & performance Rights Reserve $'000	Accumu-lated Losses $'000	Total $'000
Balance at 1 July 2014	13,081	(450)	3,323	272	(2,036)	14,190
Loss for the period	-	-	-	-	(966)	(966)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	(966)	(966)
Share-based payment	152	-	-	-	-	152
Transaction with owners	152	-	-	-	-	152
Balance at 30 June 2015	**13,233**	**(450)**	**3,323**	**272**	**(3,002)**	**13,376**
Balance at 1 July 2015	13,233	(450)	3,323	272	(3,002)	13,376
Loss for the period	-	-	-	-	(2,831)	(2,831)
Other comprehensive income	-	-	135	-	-	135
Total comprehensive income	-	-	135	-	(2,831)	(2,696)
Share-based payment	254	-	-	1,623	-	1,877
Transaction with owners	254	-	-	1,623	-	1,877
Balance at 30 June 2016	**13,487**	**(450)**	**3,458**	**1,895**	**(5,833)**	**12,557**

The above Statement of Changed in Equity should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1. Corporate information

The financial report for Kangaroo Island Plantation Timbers Ltd for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 29 August 2016.

Kangaroo Island Plantation Timbers Ltd is a company incorporated and domiciled in Australia and limited by shares, which are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' report.

2. Basis of preparation and accounting policies

a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for investment properties and freehold land that have been measured at fair value. Kangaroo Island Plantation Timbers Ltd is a for-profit entity for the purposes of preparing the financial report.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 2016/191. The Company is an entity to which the class order applies.

b) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

There is no impact of new accounting standards and interpretations applied during the year.

c) New accounting standards and interpretations

A number of new and revised standards became effective for the first time for annual periods beginning on or after 1 July 2015. Information on the more significant standards is presented below.

AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent

AASB 2015-4 amends AASB 128 Investments in Associates and Joint Ventures to ensure that its reporting requirements on Australian groups with a foreign parent align with those currently available in AASB 10 Consolidated Financial Statements for such groups. AASB 128 will now only require the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures, if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2015-4 is applicable to annual reporting periods beginning on or after 1 July 2015. The adoption of this amendment has not had any impact on the Company.

There are no other standards that are not yet effective and that are expected to have a material impact on the company in the current or future reporting periods and on foreseeable future transactions.

Accounting standards issued but not yet effective and not been adopted early by the Company:

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

New / revised pronouncement	Superseded pronouncement	Nature of change	Likely impact on initial application
AASB 1057 Application of Australian Accounting Standards	None	In May 2015, the AASB decided to revise Australian Accounting Standards that incorporate IFRSs to minimise Australian-specific wording even further. The AASB noted that IFRSs do not contain application paragraphs that identify the entities and financial reports to which the Standards (and Interpretations) apply. As a result, the AASB decided to move the application paragraphs previously contained in each Australian Accounting Standard (or Interpretation), unchanged, into a new Standard AASB 1057 *Application of Australian Accounting Standards*.	When this Standard is first adopted for the year ending 30 June 2017, there will be no impact on the financial statements.
AASB 15 *Revenue from Contracts with Customers*	AASB 118 *Revenue* AASB 111 *Construction Contracts* Int. 13 *Customer Loyalty Programmes* Int. 15 *Agreements for the Construction of Real Estate* Int. 18 *Transfer of Assets from Customers* Int. 131 *Revenue – Barter Transactions Involving Advertising Services* Int. 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*	AASB 15: • replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and some revenue-related Interpretations: - establishes a new revenue recognition model - changes the basis for deciding whether revenue is to be recognised over time or at a point in time - provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing) - expands and improves disclosures about revenue In May 2015, the AASB issued ED 260 *Income of Not-for-Profit Entities*, proposing to replace the income recognition requirements of AASB 1004 *Contributions* and provide guidance to assist not-for-profit entities to apply the principles of AASB 15. The ED was open for comment until 14 August 2015 and the AASB is currently in the process of redeliberating its proposals with the aim of releasing the final amendments in late 2016.	The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.
AASB 16 *Leases*	AASB 117 *Leases* Int. 4 *Determining whether an Arrangement contains a Lease*	AASB 16: • replaces AASB 117 *Leases* and some lease-related Interpretations	The entity currently has no leases and is not expected to have

2. Basis of preparation and accounting policies (continued)

New / revised pronouncement	Superseded pronouncement	Nature of change	Likely impact on initial application
	Int. 115 *Operating Leases—Lease Incentives* Int. 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	• requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases • provides new guidance on the application of the definition of lease and on sale and lease back accounting • largely retains the existing lessor accounting requirements in AASB 117 • requires new and different disclosures about leases	any impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.
AASB 2014-1 *Amendments to Australian Accounting Standards (Part D: Consequential Amendments arising from AASB 14)*	None	Part D of AASB 2014-1 makes consequential amendments arising from the issuance of AASB 14.	When these amendments become effective for the first time for the year ending 30 June 2017, they will not have any impact on the entity.
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*	None	AASB 2014-5 incorporates the consequential amendments arising from the issuance of AASB 15.	*Refer to the section on AASB 15 above.*
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	None	These amendments arise from the issuance of *Annual Improvements to IFRSs 2012-2014 Cycle* in September 2014 by the IASB. Among other improvements, the amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* does not apply. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of AASB 5.	When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

New / revised pronouncement	Superseded pronouncement	Nature of change	Likely impact on initial application
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	None	The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. The amendments: • clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information • clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated • add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position • clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order • remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy	When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.
AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*	None	AASB 2015-8 amends the mandatory application date of AASB 15 *Revenue from Contracts with Customers* so that AASB 15 is required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017. It also defers the consequential amendments that were originally set out in AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*.	*Refer to the section on AASB 15 above.*

The Group has not elected to early adopt any new standards or amendments that are issued but not yet effective and has not yet assessed the impact of these standards.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Kangaroo Island Plantation Timbers Limited and its subsidiaries and as at and for the period ended 30 June each year (the Group).

The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends have been eliminated in full.

All controlled entities have a June financial year-end.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Kangaroo Island Plantation Timbers Ltd are accounted for at cost in the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised. See Note 27 for parent entity information.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit disposal of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

e) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations, which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.

However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

There have been no changes from prior period in the measurement methods used to determine reported segment profit or loss.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

g) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

h) Biological Assets

Timber plantations

Biological assets which include mature and immature radiata pine and eucalypt plantations are stated at fair value less estimated point of sale costs. The Board has estimated this as $nil as at 30 June 2016. Refer to Note 14 for further details. The land element of the Biological Asset is disclosed separately as freehold land in Note 12

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

The fair value is the amount which could be expected to be received from the disposal of the asset in an active and liquid market less the costs expected to be incurred in realising the proceeds of such disposal.

Net movement in fair value less estimated point of sale costs of biological assets are included in profit or loss in the year they arise.

The change in estimated fair value is recognised in the income statement and is classified separately.

The Company has a comprehensive risk management strategy in place to monitor and oversee its timber plantations. The policy framework is set by the Board, with risk management addressing via fire risk management, plantation management practices, and experienced staff and board.

i) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year-end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investment not at fair value through profit or loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(ii) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

2. Basis of preparation and accounting policies (continued)

j) Property, plant and equipment

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Straight Line
Plant and equipment	6-33%
Mobile plant and vehicles	20%
Buildings	3%

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year-end.

Freehold land and buildings

Freehold land is measured at fair value, less any impairment losses recognised at the date of revaluation. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Freehold land is not depreciated.

Building are depreciated on a straight line basis over the estimated useful life of the asset.

Any revaluation increment is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit and loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in the profit and loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss within other income or expenses.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Certain leasehold land, held under perpetual crown leases, is treated in the same manner as freehold land.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

k) Investment properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance date. Gains or losses arising from changes in the fair values of investment properties are included in the profit and loss in the year in which they arise. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit and loss in the year of retirement or disposal.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from an investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under *Property, plant and equipment* up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

l) Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels of which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

m) Trade and other payables

Trade payables and other payables are carried at amortised cost due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

n) Provisions and employee leave benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable than an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee Leave Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

o) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

p) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Timber sales

Timber sales are recognised when the Group has transferred to the buyer the significant risk and reward of ownership, generally when the customer has taken delivery of the goods.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Operating leases

The Group also earns rental income from operating leases of its property plant and equipment (see Note 6 and 12). Rental income is recognised on a straight-line basis over the term of the lease.

q) Financial Instruments

Recognition, Initial Measurement and Derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and Subsequent Measurement of Financial Assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables
- Financial assets at Fair Value Through Profit or Loss (‘FVTPL’)
- Financial assets at Fair Value Through Other Comprehensive Income (‘FVTOCI’)
- Held-To-Maturity (‘HTM’) investments; or
- Available-For-Sale (‘AFS’) financial assets

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

2. Basis of preparation and accounting policies (continued)

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial Assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM Investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity. The Group currently does hold not HTM investments.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets include freehold land held for sale.

All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses for AFS debt securities are recognised in profit or loss if the reversal can be objectively related to an event occurring after the impairment loss was recognised. For AFS equity investments impairment reversals are not recognised in profit loss and any subsequent increase in fair value is recognised in other comprehensive income.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

r) Share-based payment transactions

The employee and officer share scheme allows Company employees to acquire shares of the Company. The fair value of options or rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.

The fair value of the options granted is measured using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The fair value of the right granted is measured using the share price at the grant date, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of rights in the period in which they are issued.

s) Non-current assets classified as held for sale

When the Group intends to sell a non-current asset or a group of assets (a disposal group), and if sale within twelve (12) months is highly probable, the asset or disposal group is classified as 'held for sale' and presented separately in the statement of financial position. Liabilities are classified as 'held for sale' and presented as such in the statement of financial position if they are directly associated with a disposal group.

Assets classified as 'held for sale' are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some 'held for sale' assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's accounting policy for those assets.

t) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised except:

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation
Kangaroo Island Plantation Timbers Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2004.

The head entity, Kangaroo Island Plantation Timbers Ltd and the controlled entities in the tax consolidation Group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated Group.

In addition to its own current and deferred tax amounts, Kangaroo Island Plantation Timbers Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and tax credits assumed from controlled entities in the tax consolidation Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in Note 7.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

u) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to member of the parent adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

v) Comparative figures

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

w) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates, and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Valuation of biological asset

The Company has, in recent years, maintained a policy of valuing the standing timber element of its biological asset at $nil, primarily on the basis that there was no immediate prospect of a deep-water wharf on Kangaroo Island, through which the timber could be exported to markets in Asia

However, over the past two years, the Company has acquired a deep-water wharf site in close proximity to its plantations, commissioned bathymetric analysis of the adjoining seabed, commissioned a report yielding a costed design for a wharf and has been working with local and state governments and with other timber owners on Kangaroo Island to develop an affordable route to market, by the construction of a deep-water berth.

The Company now considers the development of wharf infrastructure that allows exploitation of the substantial standing timber resource to which be virtually inevitable. What is not yet certain is the form and location of the wharf and the terms on the Company may be able to obtain access. As a result the Company believes it does not yet have sufficient certainty about the form and quantum of future cash flows to justify a change in valuation approach.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

The Company continues to work on wharf development and believes the time is approaching when it will no longer be appropriate to use its present valuation basis.

Valuation of investment properties and freehold land

Investment properties and freehold land are stated at the Board's estimate of fair value, based on an assumed average value of $2,329 (2015: $2,329) per arable hectare for Kangaroo Island farmland, discounted for remoteness and soil quality. Uncleared land and structural and other improvements are carried at zero. The figure of $2,329 is derived from sales of similar land on the Island. When the basis of valuation of the Company's standing timber alters the fair value basis for the valuation of land will be based on plantation land.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences if management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Fair value of Performance Rights

The fair value of the performance rights granted is measured using significant estimates in relation to the share price at the grant date, taking into account the terms and conditions upon which the rights were granted.

The amount recognised as an expense for the 2016 financial year is calculated using estimations for the expected vesting periods, fair value of the performance rights at grant date and remaining uncertainties about the satisfaction of performance conditions. Refer to Note 28 for further details.

x) Going concern assumptions

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

During the year ended 30 June 2016, the Group incurred a net loss after tax of $2,831,000 a net cash outflow used in operating activities of $713,000. The cash and cash equivalents balance, as at 30 June 2016 was $895,000. The consolidated entity's net current asset position at 30 June 2016 was $307,000.

The Group's primary focus is on development of the Group's operations on Kangaroo Island. To date this has primarily been funded through the sale of non-core assets. As the Group's plans progress it will be necessary to raise further capital to enable, for example, the construction of a deep water wharf at Smith Bay.

The Directors have reviewed the Group's financial position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group will be successful in securing the additional funds both through the raising of equity and debt capital and through the previously announced sale of non-core asset at Lycurgus $200,000. The sales agreement was signed prior to period end and the completion is expected in 2016.

Should the Group not achieve the plans set out above, there is uncertainty whether the Group can continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

3. Financial risk management objectives and policies

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluation of conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. Management has considered the triggers for impairment and concludes that no impairment is required for year ended 30 June 2016.

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Primary responsibility for identification and control of financial risks is shared between the board members and executive management.

Categories of Financial Assets and Liabilities

The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Note	Assets at FVTOCI $'000	Assets at FVTPL $'000	Derivatives used for hedging $'000	Financial assets at amortised cost $'000	Total $'000
30 June 2016						
Financial Assets						
Cash and cash equivalents	9	-	-	-	895	**895**
Trade and other receivables	10	-	-	-	73	**73**
Assets held for sale	11	-	200	-	-	**200**
Other financial assets		-	-	-	5	**5**
Property Plant and Equipment	12	12,145	-	-	-	**12,145**
Investment Properties	13	-	100	-	-	**100**
		12,145	300	-	973	**13,418**

	Note	*Derivatives used for hedging $'000	*Designated at FVTPL $'000	*Other liabilities at FVTPL $'000	#Other liabilities $'000	**Total $'000**
Financial Liabilities						
Trade and other payables	15	-	-	-	332	**332**
Employee benefits	16	-	-	-	29	**29**
Non-current borrowings	17	-	-	-	500	**500**
Total		-	-	-	861	**861**

Notes to the Consolidated Financial Statements

3. Financial risk management objectives and policies (continued)

	Note	Assets at FVTOCI $'000	Assets at FVTPL $'000	Derivatives used for hedging $'000	Financial assets at amortised cost $'000	Total $'000
30 June 2015						
Financial Assets						
Cash and cash equivalents	9	-	-	-	938	938
Trade and other receivables	10	-	-	-	13	13
Assets held for sale	11	-	367	-	-	367
Other financial assets		-	-	-	10	10
Property Plant and Equipment	12	12,086	-	-	-	12,086
Investment Properties	13	-	100	-	-	100
		12,086	467	-	961	13,514

	Note	*Derivatives used for hedging $'000	*Designated at FVTPL $'000	*Other liabilities at FVTPL $'000	#Other liabilities $'000	Total $'000
Financial Liabilities						
Trade and other payables	15	-	-	-	116	116
Employee benefits	16	-	-	-	22	22
Total		-	-	-	138	138

* Carried at fair value
# Carried at amortised cost

Risk Exposures and Responses

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest bearing liabilities and short-term deposits.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian Variable interest rate risk that are not designated in cash flow hedges:

	Consolidated	
	2016 $'000	2015 $'000
Financial assets		
Cash and cash equivalents	**895**	887
Term deposits	**-**	51
	895	938
Financial liabilities		
Interest bearing liabilities	**(500)**	-
	-	-
Net exposure	**395**	938

The Group has no outstanding debt exposed to variable rates of interest.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance date.

At 30 June 2016, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Notes to the Consolidated Financial Statements

3. Financial risk management objectives and policies (continued)

Judgements of reasonably possible movements:	Post tax profit Higher/(lower) 2016 $'000	2015 $'000	Equity Higher/(lower) 2016 $'000	2015 $'000
Consolidated				
+1%	9	9	-	-
-0.5%	(4)	(4)	-	-

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances.

Credit Risk
Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Company aims to minimise concentrations of credit risk in relation to trade receivables and loans to growers by undertaking transactions with a large number of customers.

Cash at bank is held at the National Australia Bank, which has an S&P (Standard & Poors) rating of AA.

Credit risk in trade receivables is managed in the following ways:

- payment terms are 30 days for receivables other than loans to growers
- a regular risk review takes place on all receivables and loan balances
- a thorough assessment process is used for all growers loans

The Chief Financial Officer has direct responsibility of the recovery of outstanding accounts. All overdue accounts are now sent directly to the Group's lawyers for legal action after other avenues of recovery have been exhausted.

Legal action on those particular accounts where the matter is being defended are dealt with directly by the Chief Financial Officer and the lawyers involved.

The Chief Financial Officer regularly reports to the Board of Directors on these matters.

Refer to Note 10 for ageing analysis of receivables.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other available credit lines.

The table below reflects all contractually fixed settlements and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2016.

Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2016.

The remaining contractual maturities of the Group's financial liabilities are:

	Consolidated 2016 $'000	2015 $'000
6 months or less	**(861)**	(138)
6-12 months	**-**	-
1-5 years	**-**	-
Over 5 years	**-**	-
	(861)	(138)

Notes to the Consolidated Financial Statements

3. Financial risk management objectives and policies (continued)

Maturity analysis of financial assets and liability based on management's expectations
Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, Kangaroo Island Plantation Timbers Ltd has established risk reporting covering its business that reflects expectations of management of expected settlement of financial assets and liabilities.

	< 6 months $'000	6-12 months $'000	1-5 years $'000	> 5 years $'000	Total $'000
Year ended 30 June 2016					
Financial Assets					
Cash and cash equivalents	895	-	-	-	**895**
Trade and other receivables	73	-	-	-	**73**
	968	-	-	-	**968**
Financial Liabilities					
Trade and other payables	(361)	-	-	-	**(361)**
Interest-bearing	(500)	-	-		**(500)**
	(861)	-	-	-	**(861)**
Net Maturity	**107**	**-**	**-**	**-**	**107**
Year ended 30 June 2015					
Financial Assets					
Cash and cash equivalents	938	-	-	-	**938**
Trade and other receivables	13	-	-	-	**13**
Other financial assets	-	-	5	-	**5**
	951	-	5	-	**956**
Financial Liabilities					
Trade and other payables	(138)	-	-	-	**(138)**
	(138)	-	-	-	**(138)**
Net Maturity	**813**	**-**	**5**	**-**	**818**

Fair value
The methods for estimating fair value are outlined in the relevant notes to the financial statements.

Price risk
The Group's exposure to commodity and equity securities price risk is minimal as the Group does not hold investments in equity securities.

4. Fair value measurement of non-financial instruments

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 30 June 2016:

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
30 June 2016				
Property, plant and equipment				
Land held for production in Australia	-	-	11,672	**11,672**
Assets classified as held for sale	-	-	200	**200**
Investment property				
Land held for sale in Australia	-	-	100	**100**

4 Fair value measurement of non-financial instruments (continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2015				
Property, plant and equipment				
Land held for production in Australia	-	-	11,395	11,395
Assets classified as held for sale	-	-	367	367
Investment property				
Land held for sale in Australia	-	-	100	100

Fair value of the Group's main property assets is estimated by the directors with reference to the average selling price of arable and pasturable land on Kangaroo Island in the last two years. See Note 13 for further details. The significant inputs and assumptions are developed in consultation with management. The valuation processes and fair value changes are reviewed by the Board of Directors and Audit Committee at each reporting date. Further information is set out below.

Land held for production in Australia (Level 3)
The review was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

Assets classified has held for sale (Level 3)
Arable land properties with a fair value of $200,000 (2015: $367,293) have been sold for $200,000 (2015: $385,000), contracts were exchanged in March 2015 and settlement is expected subsequent to balance date.

In the prior year, an investment property with a fair value of $170,000 was sold for $170,000, contracts were exchanged in June 2014 and completion occurred in August 2015.

Land held for sale in Australia (Level 3)
The review was carried out using a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

5. Segment reporting

Year ended 30 June 2016 and 30 June 2015

The Group has operations in one business segment, forestry management.

The forestry management segment primarily involves the management of timber plantations and, should favourable conditions exist, milling operations.

All operations are conducted in Australia.

Notes to the Consolidated Financial Statements

6. Revenue and expenses

	Consolidated 2016 $'000	Consolidated 2015 $'000
(a) Operating leases		
Operating leases: freehold land and buildings	**38**	51
Operating leases: equipment Other	**31**	8
Total	**69**	59

The Group leases a number of assets on operating leases:

Operating leases: freehold land and buildings $37,960 (2015: $51,123)

- The lease agreement between Graham Holdaway and the Group commenced on 30 June 1999 and relates to 187.60 hectares known as 'Gosse East'. The lease has a 25 year term and the lease increased annual based on CPI. The lease for the current year amounted to $23,483 (2015: $23,222); and
- The Group has a holiday rental property at Smith Bay property. The annual rent received amounted to $9,281 (2015: $8,142);
- The Group also have a residential lease on one property. The agreement is cancellable and the annual rent received amounted to $5,196 (2015: $5,196); and
- The Group also casually leases out certain properties for agistment. The annual income amounted to $nil (2015: $14,563).

Operating leases: equipment $30,975 (2015: $8,200)

- The Group has entered into an equipment lease agreement that are cancellable by lessor giving between one and three month notice. The annual income amounted to $30,975 (2015: $8,200).

	Consolidated 2016 $'000	Consolidated 2015 $'000
(b) Other income		
Other –bad debts recovered	**100**	14
Total Other income	**100**	14
(c) Sale of assets		
Sale of investment properties	**170**	799
Cost of investment properties sold including sale costs	**(189)**	(815)
(Loss) on investment properties sold	**(19)**	(16)
Sale of equipment and motor vehicles	**37**	5
Cost of assets sold	**(52)**	(2)
(Loss)/profit on assets sold	**(15)**	3
Total (loss)/profit on assets sold	**(34)**	(13)
(d) Other expenses		
Share-based payment	**1,739**	152
Audit fees (including scheme audit fees)	**44**	30
ASIC fees	**2**	7
Depreciation	**194**	196
ASX/share registry fees	**49**	28
Directors fees	**113**	41
Legal fees	**22**	11
Professional fees	**97**	102
Other corporate expenses	**51**	6
Other expenses	**2,311**	573

Notes to the Consolidated Financial Statements

6. Revenue and expenses (continued)

	Consolidated 2016 $'000	2015 $'000
(e) Finance costs		
Loan interest	-	11
Finance costs	-	11
(f) Employee benefits expense		
Wages and salaries	**153**	117
Directors fees (including super)	**100**	-
Accrued directors fees to be paid in shares	**-**	40
Share based payment	**1,737**	151
Performance rights		
Annual leave provision	**6**	6
Defined contributions superannuation	**12**	11
Total employee and directors remuneration	**2,008**	325

7. Income tax

	Consolidated 2016 $'000	2015 $'000
a) Income tax expense		
The major components of income tax expense are:		
Income Statement		
Adjustments in relation to previous income tax	**-**	-
Deferred income tax		
Benefit from previously unrecognised tax loss used to reduce deferred tax expense	**(58)**	-
Income tax (benefit)/expense reported in profit or loss	**(58)**	-
Profit/(loss) before tax	**(2,831)**	(966)
At the statutory income tax rate of 30% (2015: 30%)	**(849)**	(290)
Non-deductible expenses/capital gain on sale of land	**404**	-
Other deductions	**-**	-
Tax loss not brought to accounts as a deferred tax asset	**387**	290
Income tax expense/(benefit) reported in income statement	**(58)**	-
b) Amounts charged or credited to equity		
Deferred income tax related to items charged (credited) to equity		
Net gain on property, plant and equipment	**58**	-
Income tax expense reported in equity	**58**	-

Tax Consolidation

The Company and its 100% owned controlled entities have formed a tax consolidation Group. Members of the Consolidated Entity have entered into a tax sharing arrangement in order to allocate income tax expenses to the wholly owned controlled entities on a pro-rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated Group is Kangaroo Island Plantation Timbers Ltd.

Notes to the Consolidated Financial Statements

7. Income tax (continued)

Tax effect accounting by members of the tax consolidated Group

Members of the tax consolidated Group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated Group. Deferred taxes are allocated to members of the tax consolidated Group in accordance with a Group allocation approach which is consistent with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase/(decrease) in the member entities' intercompany accounts with the tax consolidated Group head company, Kangaroo Island Plantation Timbers Ltd. In this regard the Company has assumed the benefit of tax losses from the member entities as of the balance date. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

Tax losses not recognised

The gross value of tax losses not recognised at 30 June 2016 amount to $6,056,650 (2015: $5,295,068) and the gross value of tax losses carried forward amounted to $15,310,467 (2015: $14,009,520).

Recognised deferred tax assets and liabilities

	Assets		**Liabilities**		**Net**	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
CONSOLIDATED						
Trade and other receivables	**(4)**	(23)	**-**	-	**(4)**	(23)
Property, plant and equipment	**19**	19	**2,774**	2,663	**2,793**	2,682
Trade and other payables	**(13)**	(14)	**-**	-	**(13)**	(14)
Tax losses	**(2,776)**	(2,645)	**-**	-	**(2,776)**	(2,645)
Tax (assets)/liabilities	**(2,774)**	(2,663)	**2,774**	2,663	**-**	-
Set off of tax	**2,774**	2,663	**(2,774)**	(2,663)	**-**	-
Net tax (assets)/liabilities	**-**	-	**-**	-	**-**	-

Deferred income tax

Deferred income tax at 30 June 2016 relates to the following:

Movements in temporary differences during the year	Balance 1 July 15 $'000	Recognised in Income $'000	Recognised in Equity $'000	**Balance 30 June 16 $'000**
Property, plant and equipment	2,682	169	(58)	**2,793**
Trade and other receivables	(23)	19	-	**(4)**
Trade and other payables	(14)	1	-	**(13)**
Tax losses	(2,645)	(189)	58	**(2,776)**
	-	-	-	**-**

Movements in temporary differences during the prior year	Balance 1 July 14 $'000	Recognised in Income $'000	Recognised in Equity $'000	Balance 30 June 15 $'000
Property, plant and equipment	810	1,872	-	2,682
Trade and other receivables	304	(327)	-	(23)
Trade and other payables	(17)	3	-	(14)
Tax losses	(1,097)	(1,548)	-	(2,645)
	-	-	-	-

Notes to the Consolidated Financial Statements

8. Earnings per share

The following reflects the income and share data used in the total operation's basic and diluted earnings per share computations:

	Consolidated	
	2016	2015
	$'000	$'000
a) Earnings used in calculating earnings per share		
Net loss attributable to ordinary equity holders of the parent	**(2,831)**	(966)

There is no dilution effect of the Performance Rights on earnings.

	2016 Number Thousands	2015 Number Thousands
b) Weighted average number of shares		
Weighted average number of ordinary shares for basic earnings per share	**1,702**	1,658
Effect of dilution:		
Share options and performance rights	**-**	-
Weighted average number of ordinary shares adjusted for the effect of Dilution	**1,702**	1,658

There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for either of the periods presented.

There have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

9. Current assets – Cash and cash equivalents

	Consolidated	
	2016	2015
	$'000	$'000
Cash at bank and in hand	**895**	938
	895	938

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Reconciliation to Cash Flow Statement
For the purposes of the Statement of Cash Flows, cash and cash equivalents amount to $895,000 (2015: $938,000).

10. Current assets – Trade and other receivables

	Consolidated	
	2016	2015
	$'000	$'000
Trade receivables (a)	**73**	13
Carrying amount of trade and other receivables	**73**	13

Notes to the Consolidated Financial Statements

10. Current assets – Trade and other receivables (continued)

a) Terms of trade

Trade debtors are non-interest bearing and generally on 30-day terms.

b) Allowance for impairment loss

At 30 June, the ageing analysis of trade receivables is as follows:

Consolidated		Total	61-90 Days PDNI*	61-90 Days CI*	+ 91 Days PDNI*	+ 91 Days CI*
2016	Trade and other Receivables	73	73	-	-	-
		73	**73**	**-**	**-**	**-**
2015	Trade and other Receivables	13	13	-	-	-
		13	13	**-**	**-**	**-**

*PDNI – Past due not impaired – represents the portion of the outstanding amount that the grower/borrower is servicing under a mutually agreed repayment plan, but is more than 90 days past due.

*CI – Considered impaired

c) Credit risk and effective interest rate risk and fair values

Details regarding the credit risk and effective interest rate of current receivables are disclosed in Note 2(s). The net carrying amount of trade and other receivables is assumed to approximate their fair value.

11. Assets Classified as Held for Sale

The carrying amounts of assets classified as held for sale are as follows:

	Consolidated	
	2016 **$'000**	2015 $'000
Property, plant & equipment assets classified as held for sale	**200**	367
Investments property assets classified as held for sale	**-**	-
	200	367

During the prior years the Company sold two properties that are in the process of being subdivided (from land know as Lycurgus) and settlement, one property with a sales value of $170,000 settled in the current period the second property with a sales value of $200,000 is expected to settle after the balance sheet date The properties sold comprised:

Current year

- Part of the land known as Lycurgus was sold for $200,000 (book value $200,000).

Prior year:

- Part of the land known as Lycurgus was sold for $170,000 (book value $163,764) and $200,000 (book value $200,000).

Notes to the Consolidated Financial Statements

12. Non-current assets – Property, plant and equipment

a) Reconciliation of carrying amounts at the beginning and end of the period

	Freehold land $'000	Plant and equipment $'000	**Total $'000**
Year ended 30 June 2016			
At 1 July 2015 net of accumulated depreciation and impairment	11,395	691	**12,086**
Additions	-	-	**-**
Disposals	-	(80)	**(80)**
Adjustment in accumulated depreciation in relation to disposals	-	30	**30**
Depreciation charge for year	(26)	(168)	**(194)**
Revaluations	303	-	**303**
At 30 June 2016 net of accumulated depreciation and impairment	11,672	473	**12,145**
At 30 June 2016			
Cost or fair value	11,826	1,166	**12,992**
Accumulated depreciation and impairment	(154)	(693)	**(847)**
Net carrying amount	**11,672**	**473**	**12,145**
Year ended 30 June 2015			
At 1 July 2014 net of accumulated depreciation and impairment	11,621	861	12,482
Additions	-	1	1
Disposals	-	(6)	(6)
Adjustment in accumulated depreciation in relation to disposals	-	2	2
Depreciation charge for year	(29)	(167)	(196)
Assets classified as held for sale (Note 11)	(197)	-	(197)
At 30 June 2015 net of accumulated depreciation and impairment	11,395	691	12,086
At 30 June 2015			
Cost or fair value	11,523	1,246	12,769
Accumulated depreciation and impairment	(128)	(555)	(683)
Net carrying amount	11,395	691	12,086

b) Freehold land revaluations

Freehold land acquired is carried at fair value, which has been determined by the Directors with reference to the average sale price of arable land on Kangaroo Island in the last three years. See Note 13 for further commentary on the determination of fair value.

If the cost model had been used, the carrying amounts of the re-valued land would be $3,078,076 (2015: $3,078,076).

During the year the Company signing of an agreement with Primary Securities to remove an encumbrance on freehold land. The fair value of this land has been adjusted by $302,966 (June 2015: $nil). Under the agreement 8,670 of shares were issued on 14 January 2016 at $12.60 per share (being the quoted share price on date of issue), total $109,242, resulting a fair value gain of $193,724 (refer to Notes 18 and 28 for further details).

c) Operating lease

The Group also earns rental income from operating leases of its investment properties (see Note 6).

Notes to the Consolidated Financial Statements

13. Non-current assets – Investment properties

	Consolidated	
	2016	2015
	$'000	$'000
At fair value		
Investment properties at 1 July	**100**	100
	100	100

Investment properties are carried at fair value, which has been determined by the Directors with reference recent land sales on Kangaroo Island. This approach has been based on the expectation of the properties eventually returning to non-forestry agricultural use. As noted in the Directors' Report and in Note 14 below the Company continues to work on wharf development and believes the time is approaching when it may no longer be appropriate to use its present valuation basis for its timber assets. At that time it will be necessary to also change the basis for valuation of the Company's land which will be, at that time, expected to remain in forestry use.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller at an arm's length transaction at the date of valuation.

In determining fair value for the Kangaroo Island land, the following main inputs have been used:

- Plantation land has been assessed at $2,329 (2015: $2,329) per arable or pasturable hectare (after allowances for fencing and other costs); and
- No value has been ascribed to uncleared land under natural vegetation unless specifically subdivided for the purpose of sale.

These inputs have been referenced to market information.

	Consolidated	
	2016	2015
	$'000	$'000
Investment Properties		
Opening balance as at 1 July	**100**	727
Disposals	**-**	(550)
Fair value adjustment	**-**	(77)
Closing balance as at 30 June	**100**	100

14. Biological assets

	Consolidated	
	2016	2015
	$'000	$'000
Standing timber at fair value	**0**	0

The Company has, in recent years, maintained a policy of valuing its standing timber at $0, primarily on the basis that there was no immediate prospect of a deep-water wharf on Kangaroo Island, through which the timber could be exported to markets in Asia.

However, over the past three years, the Company has acquired a deep-water wharf site in close proximity to its plantations and commissioned the following reports:

- bathymetric analysis of the adjoining seabed,
- a costed design for a wharf;
- two separate ecological studies; and
- wave, current and tide report

Notes to the Consolidated Financial Statements

14. Biological assets (continued)

The Company has been working with local and state governments and with other timber owners on Kangaroo Island to develop an affordable route to market, by the construction of a deep-water berth.

The Company now considers the development of wharf infrastructure that allows exploitation of the substantial standing timber resource to be virtually inevitable. What is not yet certain is the form and location of the wharf and the terms on which the Company may be able to obtain access. As a result, the Company believes it does not yet have sufficient certainty about the form and quantum of future cash flows to justify a change in valuation approach.

The Company continues to work on wharf development and believes the time is approaching when it will no longer be appropriate to use its present valuation basis.

During the prior year, the Company commissioned and received a report and valuation model from Geddes Management Pty Ltd (Geddes), a reputable and experienced firm of consultant foresters. The valuation model used by Geddes allows the Company to estimate the value of its timber under various scenarios, and to consider the impact of variables within and outside the Company's control, such as harvesting costs, internal road construction costs, haulage, wharf charges, exchange rates and international timber prices. Like any forward-looking valuation, the outputs are sensitive to the choice of assumptions. Geddes' report valued the Company's timber at $22.3m.

15. Current liabilities – Trade and other payables

	Consolidated	
	2016	2015
	$'000	$'000
Trade payables (a)	**240**	114
Maintenance fund	**90**	-
PAYE tax payable	**2**	2
	332	116

a) Trade payables
Trade payables are non-interest bearing and are normally settled on 30-day terms.

b) Maintenance fund

During the year the Company received $90,000 of maintenance fees on the previously encumbered land, refer to Note 12 for further detail. The funds will now be used by the Company to improve the previously encumbered land.

c) Fair value
Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

16. Current liabilities – employee benefits

Employee benefits	**Consolidated**	
	2016	2015
	$'000	$'000
Annual Leave	**16**	22
Long service leave	**11**	-
Superannuation	**2**	-
	29	22

Represent annual leave, long service leave and superannuation entitlements of employees within the Group and are non-interest bearing.

Notes to the Consolidated Financial Statements

17. Interest-bearing liabilities

	Consolidated	
	2016	2015
	$'000	$'000
Current		
Loan agreement [(a)]	**500**	-
	500	-

a) In June 2016, Aminac Pty Ltd as Trustee for Agrarian Management Super Fund, an entity associated with the Chair of the Company, Mr Paul McKenzie agreed to lend $500,000 to the Company in the current financial year and to provide a loan facility up to a further $50,000. $500,000 of the loan was drawn down in June 2016. Interest will be changed at a rate of 8% per annum. The loan is secured by a first ranking mortgage over two of the Company's properties, known as Brookland Park CT Volume 5813 Folio 274 and Yerda North CT Volume 5959 Folio 964 (total book value $1,139,342). The loan is repayable by 23 December 2016.

b) The carrying amount of interest bearing liabilities approximates their fair value.

18. Contributed equity

	Consolidated	
	2016	2015
a) Issued and paid up capital	**$'000**	$'000
Ordinary shares fully paid	**13,037**	12,783

Fully paid ordinary shares carry one vote per share and carry the right to dividends

b) Movements in shares on issue

	2016		2015	
	Number of shares	**$'000**	Number of shares	$'000
Beginning of financial year	**1,685,678**	**12,783**	1,648,196	12,631
Share-based payment (Note 28)	**33,206**	**254**	37,482	152
End of the financial year	**1,718,884**	**13,037**	1,685,678	12,783

c) Capital management

Capital consists of share capital and borrowings of $13.537 million (2015: $12.783 million).

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management monitor capital through the gearing ratio (net debt/total capital). The gearing ratios at 30 June 2016 and 30 June 2015 were as follows:

	Consolidated	
	2016	2015
	$'000	$'000
Trade and other payables	**361**	138
Interest bearing liabilities	**500**	-
Less cash and cash equivalents	**(895)**	(938)
Net debt	**(34)**	(800)
Total equity	**12,557**	13,376
Total capital	**12,523**	12,576
Gearing Ratio	**(0.27%)**	(6.36%)

The Group is not subject to any externally imposed capital requirements.

Notes to the Consolidated Financial Statements

19. Reserves

	Consolidated 2016 $'000	2015 $'000
Option and Performance Rights reserve (a)	**1,895**	272
Property, plant and equipment reserve (b)	**3,458**	3,323
	5,353	3,595

a) Option and Performance Rights reserve

	Consolidated 2016 $'000	2015 $'000
Opening balance at 1 July	**272**	272
Movement	**1,623**	-
Closing balance at 30 June	**1,895**	272

The option reserve is used to recognise the grant date fair value of options and performance rights issued to employees but not yet exercised.

Performance Rights Plan

The Board seeks Shareholder approval to augment directors' existing remuneration through the issue of performance rights, triggered by meeting the following two conditions:

Condition 1. a volume-weighted average price (VWAP) threshold of the Company's Shares; and

Condition 2. the share price must be equal to or greater than the original VWAP threshold share price (being $15.00, $20.00 and $25.00 as set out below) at the date the shares are issued.

A summary of the Performance Rights proposed is shown below:

20 Business Day VWAP	Shares to be issued to Managing Director Number	Shares to be issued per Non-Executive Director Number	Total Shares to be issued Number	Escrow period
$15.00 or above	35,000	11,667	70,001	n/a
$20.00 or above	30,000	10,000	60,000	n/a
$25.00 or above	25,000	8,333	49,999	12 months
Total	**90,000**	**30,000**	**180,000**	

On the 18th January 2016 the Company's share price was $12.60.

Since then (and as at the date of this notice) Condition 1, the $15.00 and $20.00 20-day VWAP share price hurdles have been met, resulting in 130,001 performance rights being issued after the Annual General Meeting, subject to Shareholder approval of the Plan and Condition 2, the issue price being equal to or higher than the VWAP threshold share price on the date of issue.

Valuation of Performance Rights

AASB 2 *Share-Based Payment* requires that the Company record the cost of all forms of Director remuneration in the Company's accounts and sets out parameters for determining this cost.

AASB 2 sets the valuation date (termed to Grant Date) as the date at which such a right has been finally approved. Because the Directors did not seek immediate ratification of the Plan this approval date will be 5 October 2016 - the date of the AGM.

This produces an unusual set of circumstances, in that the triggers for two of the tranches have already been met and some of the uncertainty that existed when Directors settled on the Plan has subsequently been resolved. The effect of this is that the recorded value is very much higher than it would have been if the Grant Date had been when the Directors advised the market of the proposed Plan. Refer to the Remuneration Report and Note 28 for further information.

19. Reserves (continued)

b) Property, plant and equipment revaluation reserve

	Consolidated 2016 $'000	Consolidated 2015 $'000
Opening balance at 1 July	**3,323**	3,323
Net fair value gain on property, plant and equipment	**135**	-
Closing balance at 30 June	**3,458**	3,323

The property, plant & equipment revaluation surplus is used to record increments and decrement on the revaluation of non-current assets. In the event of a sale of an asset, any balance in the reserve in relation to the asset is transferred to retained earnings.

20. Contingent liabilities

The directors are not aware of any other matter or circumstance not otherwise dealt with in the report or consolidated financial statements that has significantly or may significantly affect the operations of the consolidated entity.

21. Contingent assets

The Company has, in recent years, maintained a policy of valuing its standing timber at $0, primarily on the basis that there was no immediate prospect of a deep-water wharf on Kangaroo Island, through which the timber could be exported to markets in Asia.

However, over the past three years, the Company has acquired a deep-water wharf site in close proximity to its plantations, commissioned bathymetric analysis of the adjoining seabed, commissioned a report on wave, tide and currents, commissioned a report yielding a costed design for a wharf and has been working with local and state governments and with other timber owners on Kangaroo Island to develop an affordable route to market, by the construction of a deep-water berth.

During the prior year, the Company commissioned and received a report and valuation model from Geddes Management Pty Ltd (Geddes), a reputable and experienced firm of consultant foresters. Geddes valued the Company's timber at $22.3m. Refer to Note 14 for further details.

The directors are not aware of any other contingent assets.

22. Reconciliation of statement of cash flows

	Consolidated 2016 $'000	Consolidated 2015 $'000
Reconciliation from the net profit after tax to the net cash flows from operations		
Net profit/(loss)	**(2,831)**	(966)
Adjustments for		
Depreciation	**194**	196
(Profit)/Loss on sale of property, plant and equipment	**34**	(22)
Net Fair value decrease/(increase) on investment properties	**-**	77
Tax on increase in fair value on property, plant and equipment	**(58)**	-
Share-based payment (Note 28)	**1,780**	152
Changes in assets and liabilities		
(Increase)/decrease in receivables and other debtors	**(18)**	3
Increase/(decrease) in trade and other payables	**186**	49
Net cash (used in)/from operating activities	**(713)**	(511)

Notes to the Consolidated Financial Statements

23. Events after balance date

In August 2016, the Company announced the appointed Adelaide-based firm Wallbridge and Gilbert, consulting engineers, to carry out a traffic impact and route assessment study on Kangaroo Island.

In July 2016, the Company announced that two separate ecological studies had commenced at its proposed Smith Bay multi-user wharf site on the north coast of Kangaroo Island. The first, a marine study, will be undertaken by SEA Pty Ltd, an Adelaide-based firm. The second study, a terrestrial ecology survey, will be undertaken by South Australian firm EBS Ecology, using a Kangaroo Island-based ecologist.

On the 18th January 2016 the Company announced a Performance Rights Plan, subject to Shareholder approval. On the 18 January 2016 the Company's share price was $12.60. The $15.00 and $20.00 VWAP share price hurdles, being Condition 1 under that scheme have been reached as at the date of this Report, resulting in the following 130,001 performance rights to be issued after the Annual General Meeting if approved by Shareholders and achieving Condition 2, that the share price is equal to or greater than the original VWAP threshold value at the date the shares are issued:

- John Sergeant rights:
    - On 30 May 2016 35,000 shares at a VWAP value of $525,000; and
    - On 1 August 2016 30,000 shares at a VWAP value of $600,000.

- Paul McKenzie rights:
    - On 30 May 2016 11,667 shares at a VWAP value of $175,005; and
    - On 1 August 2016 10,000 shares at a VWAP value of $200,000.

- Graham Holdaway rights:
    - On 30 May 2016 11,667 shares at a VWAP value of $175,005; and
    - On 1 August 2016 10,000 shares at a VWAP value of $200,000.

- Shauna Black rights:
    - On 30 May 2016 11,667 shares at a VWAP value of $175,005; and
    - On 1 August 2016 10,000 shares at a VWAP value of $200,000.

During the year ended 30 June 2016 Performance Right valued at $1,622,729 based on AASB 2 *Share-based payments*, have been recognised.

There have been no other significant events after balance date.

24. Auditor remuneration

The auditor of Kangaroo Island Planation Timbers Ltd is Grant Thornton Audit Pty Ltd.

	Consolidated	
	2016	2015
	$	$
Amounts received or due and receivable by auditors for:		
An audit or review of the financial report of the entity and any other entity in the consolidated entity		
Grant Thornton	**34,000**	28,000
Taxation services Grant Thornton	**10,318**	3,000
	44,318	31,000

Notes to the Consolidated Financial Statements

25. Key management personnel

(a) Compensation of key management personnel

	Consolidated	
	2016	2015
	$	$
Directors		
Fees	**100,000**	-
Share-based remuneration payment	**100,000**	148,333
Performance Rights	**811,365**	-
Future share-based payment, subject to security holders approval	**-**	28,334
	1,011,365	176,667
Executives		
Executive Director	**12,500**	-
Share-based remuneration payment	**12,500**	-
Future share-based payment, subject to security holders approval	**-**	12,500
Performance Rights	**811,364**	-
Fees	**80,740**	76,604
Share-based remuneration payment	**2,000**	1,000
	919,104	90,104
Total	**1,930,469**	266,771

The directors and executives have been reimbursed for Company expenses incurred during the year.

There have been no other transactions with directors or executives.

Refer to the Remuneration Report for further information.

26. Related party disclosures

Ultimate parent

The ultimate parent entity is Kangaroo Island Plantation Timbers Ltd, a publicly listed company domiciled and incorporated in Australia.

Subsidiaries

The consolidated financial statements include the financial statements of Kangaroo Island Plantation Timbers Ltd and the subsidiaries listed in the following table:

		Percentage of equity interest held by the consolidated entity	
	Country of	**2016**	2015
Name	incorporation	**%**	%
Cineria Pty Ltd[(i)]	Australia	**100**	100
APR Pty Ltd	Australia	**100**	100
RuralAus Plantation Management Pty Ltd[(ii)]	Australia	**100**	100
RuralAus Finance Limited[(ii)]	Australia	**100**	100
RuralAus Landholdings Limited[(ii)]	Australia	**100**	100
RuralAus Plantation Timber Pty Ltd[(ii)]	Australia	**100**	100

[(i)] Cineria Pty Ltd was incorporated on 29 January 2014 as is a wholly owned subsidiary of Kangaroo Island Plantation Timbers Ltd.

[(ii)] These wholly owned subsidiaries' immediate parent entity is APR Pty Ltd, a wholly owned subsidiary of Kangaroo Island Plantation Timbers Ltd.

Notes to the Consolidated Financial Statements

26. Related party disclosures (continued)

Key management personnel

Details relating to key management personnel, are included in the Remuneration Report and Note 25.

Transactions with related parties

Transactions between Kangaroo Island Plantation Timbers Ltd and other entities in the wholly owned group during the period consisted of:

- Loans advanced by Kangaroo Island Plantation Timbers Ltd; and
- Loans advanced to Kangaroo Island Plantation Timbers Ltd.

Loans provided by the Company to wholly owned entities are made on an interest free basis and are repayable on demand.

All inter-entity transactions and balances are eliminated in the consolidated financial statements.

Related party transactions

	Consolidated	
	2016	2015
	$	$
Directors transaction		
Income: Annual lease payment(1)	**23,483**	23,222
Expense: Loan interest(2)	**-**	10,319
Liability: Loan agreement(2)	**500,000**	-
Liability: Lease payment received in advance(1)	**23,648**	23,483

(1) The Lease agreement between Graham Holdaway and the Group commenced on 30 June 1999. The lease is for 187.60 hectares of Land known as "Gosse East' and has a term of 25 years. Annual rent for 30 June 2015 is $23,483 (2015: $23,222) is fully paid. The rent paid in advance for year ended 30 June 2017 amounts to $23,648 (2015 $23,483) excluding GST.

(2) In June 2016, Aminac Pty Ltd as Trustee for Agrarian Management Super Fund, an entity associated with the Chair of the Company, Mr Paul McKenzie agreed to lend $500,000 to the Company in the current financial year and to provide a loan facility up to a further $50,000. $500,000 of the loan was drawn down in June 2016. Interest will be changed at a rate of 8% per annum. The loan is secured by a first ranking mortgage over two of the Company's properties, known as Brookland Park CT Volume 5813 Folio 274 and Yerda North CT Volume 5959 Folio 964 (total book value $1,139,342). The loan is repayable in full by 23 December 2016.

During the year ended 30 June 2014, Agrarian Consulting Pty Ltd, a company controlled by Paul McKenzie, a non-executive director of the Company entered into a loan agreement. The loan totalled $300,000, interest was charged at 9% per annum payable on the maturity date. The loan of $310,319 including interest was repaid in full in May 2014.

27. Parent Entity disclosures

Information relating to Kangaroo Island Plantation Timbers Ltd

	2016	2015
	$'000	$'000
Current assets	**755**	811
Non-current assets	**8,267**	8,071
Total assets	**9,022**	8,882
Current liabilities	**713**	95
Total liabilities	**713**	95
Total net assets	**8,309**	8,787

Notes to the Consolidated Financial Statements

27. Parent Entity disclosures (continued)

	2016 $'000	2015 $'000
Issued capital	**13,037**	12,783
Option and performance rights reserve	**1,895**	272
Property, plant and equipment reserve	**800**	800
Retained earnings	**(7,423)**	(5,068)
Total shareholders' equity	**8,309**	8,787
(Loss) of the parent entity	**(2,355)**	(825)
Total comprehensive (loss)	**(2,355)**	(825)

Parent entity guarantees, commitments and contingent liabilities

The directors are not aware of any guarantees, commitments or contingent liabilities of the parent entity.

28. Share-based payments

Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	Consolidated	
	2016 $'000	2015 $'000
Directors fees in respect of current year [a]	**112**	149
Directors fees in respect of prior year [a]	**41**	-
Performance Rights [b]	**1,623**	
Paid to employees during the year under the EESP [c]	**2**	2
Paid in lieu of consulting fees [d]	**2**	1
Total expense from security-based payment transactions	**1,780**	152

Equity-settled share-based payment transactions during the year:

(a) During the year the following $153,334 (2015: $148,333) of directors remuneration was paid in 18,750 shares:

- During the year 3,125 (2015: 15,625) ordinary shares were issued in lieu of $25,000 (2015: $62,500) Non-Executive Directors Fees, to Aminac Pty Ltd ATF Agrarian Management S/F A/C of which Mr McKenzie is the Managing Director.
- During the period until Mr Woollard's resignation on 17 March 2015, 8,958 ordinary shares were issued in lieu of $35,833 Non-Executive Directors Fees, to JP Morgan Australia Ltd as custodian of the Samuel Terry Absolute Return Fund, Fred Woollard is the Managing Director of Samuel Terry Assets Management Pty Ltd as trustee for Samuel Terry Absolute Return Fund.
- During the year 3,125 (2015: 12,500) ordinary shares were issued to Mr Sergeant in lieu of $25,000 (2015: $50,000) Non-Executive Directors Fees.
- During the year 6,667 share have been issued to Ms Black:
  - o 3,542 of the ordinary shares related to the period from her appointment to 30 June 2015, Non-Executive Director's fees amounted to $14,167, accrued in the prior year as salary & fees, as subject to security holders' approval at 2015 AGM; and
  - o 3,125 of the shares related to non-executive fees for the year ended 30 June 2016 of $25,000.
- During the year 6,667 ordinary shares have been issued to Mr Holdaway:
  - o 3,542 of the ordinary shares related to the period from her appointment to 30 June 2015, Non-Executive Director's fees amounted to $14,167, accrued in the prior year as salary & fees, as subject to security holders' approval at 2015 AGM; and
  - o 3,125 of the shares related to non-executive fees for the year ended 30 June 2016 of $25,000.

Notes to the Consolidated Financial Statements

28. Share-based payments (continued)

- Mr Sergeant was appointed Managing Director on 1 January 2015. His annual director's fees comprise of $50,000 Directors fee and $25,000 Executive fee. During the year ended 30 June 2016 :
  - o 3,125 (2015: nil) of ordinary shares were issued in respect of $12,500 of executive directors fees for the year ending 30 June 2015, accrued in the prior year as security holders' approval at 2015 AGM; and
  - o 1,563 (2015: nil) ordinary shares were issued in lieu of executive fees for the year ending 30 June 2016 of $12,500.

(b) During the year Performance Rights were issued, subject to performance conditions and shareholder approval. The fair value of the performance rights is measured using the estimated share price at the grant date, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is calculated to reflect the estimated vesting period. There are a number assumption used to calculate the $2,582,512 fair value of which $1,622,729 has been recognised as an expense in the year ended 30 June 2016:
- o Expected Grant date: 5 October 2016 being the date of the expected approval of the rights plan;
- o The estimated fair value of the rights has been determined using a range of valuations due to the recent significant movement in share prices against the background of thinly trading movements. Also included within the determination of the fair value of the rights is the current share price and the current buy quote;
- o Vesting period is assumed to be 261 days from contract date being 18 January 2016 to the expected grant date detailed above; and
- o Probability of the market conditions being met. The probability of the three tranches of the performance rights have been estimated with reference to anticipated future share price and the required conditions of the performance rights. A probability of 90% has been determined for tranche 1, 75% for tranche 2 and 25% for tranche 3.

(c) $2,000 (2015: $2,000) were paid to employees during the year under the Executive & Employee Share Loan Scheme (EESP). Under the EEPS two employees were issued 66 (2015: 133) shares each.

(d) Victoria Allinson was appointed as CFO and Company Secretary on 14 May 2013. 66 of these shares were issued to Allinson Family Trust, of which Victoria Allinson is a trustee and beneficiary and 66 were issued to an employee of Allinson Accounting Solutions Pty Ltd. The 132 (2015: 133) shares were in payment of $2,000 (2015: $1,000) of professional fees invoiced by Allinson Accounting Solutions Pty Ltd.

Other share-based payments

	Consolidated	
	2016	2015
	$'000	$'000
Shares issued	**97**	-
Total expense from share-based payment transactions	**97**	-

During the year, the Company signed of an agreement with Primary Securities to remove an encumbrance on freehold land. The fair value of this land has been adjusted by $302,966 (June 2015: $nil). Under the agreement, 8,670 of shares were issued at $11.15 per share: the shares were issued to remove an encumbrance on 14 January 2016 at $12.60 per share, being the quoted share price on date of issue, total $109,242, resulting a fair value gain of $193,724 (refer to Note 12 for further details).

29. Commitments

Contractor commitments

The Group has commission a wave, tide and current study, the commitment at 30 June 2016 amounts to $102,661.

There are no other commitments at 30 June 2016.

Directors' Declaration

In accordance with a resolution of the directors of Kangaroo Island Plantation Timbers Ltd, I state that:

- In the opinion of the directors:
  - The consolidated financial statements and notes of Kangaroo Island Plantation Timbers Ltd for the financial year ended 30 June 2016 are in accordance with the Corporations Act 2001, including:
    - Giving a true and fair view of its financial position as at 30 June 2016 and of its performance for the financial year ended on that date;
    - Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and
- The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a); and
- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

On behalf of the Board

Paul McKenzie

Chairman

Dated this 29th day of August 2016

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF KANGAROO ISLAND PLANTATION TIMBERS LIMITED

Report on the financial report

We have audited the accompanying financial report of Kangaroo Island Plantation Timbers Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion
In our opinion:

a the financial report of Kangaroo Island Plantation Timbers Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern
Without qualifying our opinion, we draw attention to Note 2(x) in the financial report which indicates that the consolidated entity incurred a net loss of $2,831,000 and net cash outflows from operating activities of $713,000 during the year ended 30 June 2016. These conditions, along with other matters as set forth in Note 2(x), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2016. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Kangaroo Island Plantation Timbers Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Sheenagh Edwards
Partner - Audit & Assurance

Adelaide, 29 August 2016

Investors’ supplementary information: 29 August 2016

The information contained below is to be read in conjunction with the annual report of Kangaroo Island Plantation Timbers Ltd dated 30 June 2016.

Details of top 20 shareholders

The following is a list of the top 20 shareholders of the Company:

Rank	Name	Number of shares held	% of total shares issued
1.	J P MORGAN NOMINEES AUSTRALIA LIMITED	1,069,575	62.22
2.	AMINAC PTY LTD <AGRARIAN MANAGEMENT S/F A/C>	129,610	7.54
3.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	55,900	3.25
4.	DAVID NEIL CONSTABLE	51,550	3.00
5.	PHALAENOPSIS PTY LTD <SERGEANT FAMILY A/C>	47,356	2.76
6.	MR JOHN DAVID SERGEANT	32,924	1.92
7.	MR GRAHAM IAN HOLDAWAY + MRS KRISTINA MARY IRVING HOLDAWAY <G & K SUPER FUND A/C>	30,700	1.79
8.	MR JOHN DAVID SERGEANT <SERGEANT FAMILY S/F A/C>	25,760	1.50
9.	A&M SALTER NOMINEES PTY LTD <ALF SALTER & ASSOC S/F A/C>	20,828	1.21
10.	SHANDORA ONE PTY LTD <BENGER SUPER FUND A/C>	19,682	1.15
11	BENGER SUPERANNUATION PTY LIMITED <BENGER SUPER FUND A/C>	18,965	1.10
12.	AGRARIAN CONSULTING PTY LTD <PAUL MCKENZIE FAMILY A/C NO 2>	18,750	1.09
13.	MRS CHRISTINE EVELYN NEWMAN + MR DAVID HALSTEAD BREWSTER <BREWSTER-NEWMAN SUPER A/C>	14,336	0.83
14.	MR TIMOTHY EDWARD HOBILL COLE + MRS FIONA CAROLINE HOBILL COLE <VAMEKE SUPER FUND A/C>	10,019	0.58
15.	BOND STREET CUSTODIANS LIMITED <HEF - V25279 A/C>	9,000	0.52
16.	MR GILES CAMERON CRAIG MRS VICKI PATRICIA CRAIG <THE CRAIG FAMILY S/F A/C>	8,975	0.52
17.	GADBY PTY LTD <GADBY SUPER A/C>	8,530	0.50
18.	MR DAVID HOWARD SERGEANT + MRS MARION ELIZABETH SERGEANT	8,000	0.47
19.	MR ANDREW WILLIS MATTHEW CRAWFORD	7,811	0.45
20.	HAVERO PTY LIMITED <R AND V HANDELSMANN SF A/C>	7,690	0.45
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES		**1,595,961**	**92.85**
Total Remaining Holders Balance		**122,923**	**7.15**
Total		**1,718,884**	**100.00**

Investors' supplementary information (continued)

Details of substantial shareholders

The following is a list of substantial shareholders of the Company and their associates:

Name of substantial shareholder	Registered holder of the shares	Number of shares held	% of total shares	Associate of substantial shareholder
Samuel Terry Asset Management Pty Ltd	JP Morgan Nominees Australia Limited	792,174	46.08%	Fred Woollard, Nigel Burgess
	Mr Frederick Woollard	136	0.01%	Fred Woollard
		792,310	46.09%	
Supervised Investments Limited	JP Morgan Nominees Australia Limited	277,401	16.14%	David Constable
	David Neil Constable	51,550	3.00%	David Constable
	Lola Lichter	500	0.03	Lola Lichter
		329,451	19.17%	
Paul McKenzie	Aminac Pty Ltd <Agrarian Management S/F A/C>	129,610	7.54%	Paul McKenzie
	Agrarian Consulting Pty Ltd <Paul McKenzie Family A/C No 2>	18,750	1.09%	Paul McKenzie
		148,360	8.63%	
John Sergeant	John David Sergeant	32,924	1.92%	John Sergeant
	Phalaenopsis Pty Ltd	47,356	2.75%	John Sergeant
	Sergeant Family Superannuation Fund	25,760	1.50%	John Sergeant
	Jennifer Sergeant	1,000	0.06%	John Sergeant
		107,040	6.23%	

Distribution of shareholder numbers

Number of shares held	Number of shareholders
1 – 1,000	418
1,001, - 5,000	22
5,001 – 10,000	10
10,001 – 100,000	12
More than 100,001	2

Number of shareholders with less than a marketable parcel of securities

As at 29 August 2016, there were a total of 239 shareholders with less than a marketable parcel of securities held in Kangaroo Island Plantation Timbers Ltd.

Unlisted options

There are no unlisted options.

Types of securities and voting rights

There is one class of ordinary shares. Each share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Number and class of shares held in escrow

There are currently no shared held in escrow.

On-Market Buy Backs

There is no current on–market buy back at the date of this report.

Securities Exchange

The Company is listed on the Australian Securities Exchange.