Kangaroo Island Plantation Timbers Ltd

ACN 091 247 144

Results for Announcement to the Market
Appendix 4D

Current reporting period: Half-year ended 31 December 2016
Previous corresponding reporting period: Half-year ended 31 December 2015

Results for Announcement to the Market

	Percentage Change %	Amount $'000
Revenue – continued operations	169% increase	132
Profit after tax – continued operations	4,917% increase	22,399
Net profit attributable to members	4,917% increase	22,399

Dividends paid or proposed

No dividends have been paid or proposed during the period.

Brief explanation of revenue and net profit/(loss)

The Group experienced an increase in revenue for the period from continuing operation as compared to the same period last year of 169% to $132,000 (2015: $49,000). This was attributable to an increase in plantation management fees from $nil in 2015 to $80,000, and higher interest income, offset by slightly lower equipment hire revenue.

Profit from continuing operations increased to $22,399,000 largely as a result of recognition of $32,346,000 of biological assets being standing timber, offset by a tax expense relating to the asset revaluations of $7,630,000. This net increase is offset by higher costs including:

- Wharf development costs increased by $154,000; and
- Director performance rights $1,461,000; offset
- by lower plantation costs and lower head office costs.

Historically, the standing timber has been valued at $nil and plantation land valued based on alternative use. However, given significant developments concerning the Group's proposal to construct a deep-water wharf, a discounted value has been recognised for the standing timber and land is valued based on its use for timber plantations.

NTA backing

	Half-year Ended 31 December 2016	Half-year Ended 31 December 2015
Net tangible asset backing per security	$21.32	$7.72

The increase is the result of recognition of $32,346,000 of biological assets and $3,732,000 of revalued land.

Details of entities over which control has been gained or lost during the period

The Group has not gained or lost control of any entities during the half-year ended 31 December 2016.

Details of dividends

Not applicable

Details of associates or joint ventures

Not applicable

Review dispute or qualification

The Group is not aware of any review, dispute or qualification for the accounts for the half-year ending 31 December 2016.

The half-year financial report should be read in conjunction with the annual report for the year ended 30 June 2016.

Kangaroo Island Plantation Timbers

Interim Financial Report

ABN 19 091 247 166

For the Half Year ended

31 December 2016

Contents

Directors' Report

For the half-year ended 31 December 2016

Your directors submit their report for the half-year ended 31 December 2016 for Kangaroo Island Plantation Timbers Limited ("Company") and its controlled entities ("Group").

Directors

The names of the Company's directors in office during the half-year and until the date of this report are as below.

Director	Position	Appointed to Board	Last elected or re-elected at GM	Resigned
Paul McKenzie(1)	Non-Executive Chair	29 April 2005	8 September 2015	-
John Sergeant(2)	Managing Director	2 March 2013	18 November 2014	-
Shauna Black	Independent Non-Executive	17 March 2015	8 September 2015	-
Graham Holdaway	Independent Non-Executive	17 March 2015	5 October 2016	-
Gregory Boulton AM	Independent Non-Executive	1 November 2016	24 February 2017	-

(1) Appointed Chair on 1 July 2009
(2) Appointed Managing Director on 1 January 2015

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

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 2016	Net changes during the period	Performance Rights Issued	Closing interest at 31 December 2016
Paul McKenzie(1)	148,360	48,206	30,000	226,566
John Sergeant(2)	107,040	53,257	90,000	250,297
Shauna Black(3)	6,667	8,000	30,000	44,667
Graham Holdaway(4)	37,367	18,208	30,000	85,575
Gregory Boulton AM(5)	-	7,623	-	7,623
Total	**299,434**	**135,294**	**180,000**	**614,728**

(1) During the period, 30,000 shares were issued to Paul McKenzie under the performance plan dated 18 January 2016. In addition, Mr McKenzie was issued 48,206 shares in the rights issue. Mr McKenzie's shareholdings comprise:
   a. 197,244 shares held by Aminac Pty Ltd ATF Agrarian Management S/F A/C of which Mr McKenzie is the Managing Director; and
   b. 29,322 shares are held by Agrarian Consulting Pty Ltd <Paul McKenzie family A/C) of which Paul McKenzie is the Managing Director.

(2) During the period, 90,000 shares were issued to John Sergeant under the performance plan dated 18 January 2016. In addition, Mr Sergeant was issued 53,257 shares in the rights issue. Mr Sergeant's shareholdings comprise:
   a. 41,823 shares held under a direct interest
   b. 174,480 shares held by Phalaenopsis Pty Ltd <ATF Sergeant Family Trust>. Mr Sergeant has effective control of his family trust.
   c. 32,723 shares held by Sergeant Family Superannuation Fund. Mr Sergeant has effective control of his self-managed superannuation fund.
   d. 1,271 shares held by Ms J Sergeant. Ms Sergeant is Mr Sergeant's wife.

   Mr Sergeant discloses that he remains a unitholder in Samuel Terry Absolute Return Fund (STAR), which is a substantial holder in the Company. Mr Sergeant does not have the power to direct or influence STAR in the exercise of its voting rights or in regard to the acquisition or disposal of shares. Nor does Samuel Terry Asset Management, the manager of STAR, have any power, beyond that available by virtue of being a shareholder, to direct or influence Mr Sergeant in the performance of his duties as Managing Director.

(3) During the period, 30,000 shares were issued to Shauna Black under the performance plan dated 18 January 2016. In addition, Ms Black was issued 8,000 shares in the rights issue. Ms Black's shareholdings comprise:
   a. Direct interest 6,667 shares; and
   b. 38,000 shares held by Black Stump Regional Pty Ltd as trustee for the Taybric Family Trust, of which Ms Black has effective control.

(4) During the period 30,000 shares were issued to Graham Holdaway under the performance plan dated 18 January 2016. In addition, Mr Holdaway was issued 18,208 shares in the rights issue. Mr Holdaway's shareholdings comprises:
   a. 46,577 shares are held by Holdaway & Holdaway Pty Ltd, of which Mr Holdaway has effective control; and
   b. 38,998 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.

(5) During the period, Gregory Boulton AM purchased 6,000 shares. In addition, Mr Boulton was issued 1,623 shares in the rights issue. The shares are held indirectly by G Boulton Pty Ltd as trustee of <Greg Boulton Family S F A/C>, of which Mr Boulton has effective control.

Review and results of operations

The Group has had the most active and transformative six-month period in its history. Considerable progress has been made towards the Group's deep water wharf, being: the Forestry Investment Trust estate acquisition, the lodgement of an application for major project status (which was subsequently awarded in February 2017); and a capital raising. Substantial progress has been made in the compilation of an environmental impact study. Moreover, the Group has elected to change its policy and to value its land and timber on the basis that it is now, in the Board's opinion, highly probable that this value can be realised.

The Group experienced an increase in revenue for the period from continuing operation as compared to the same period last year of 169% to $132,000 (2015: $49,000). This was attributable to an increase in plantation management fees from $nil in 2015 to $80,000, and higher interest income, offset by slightly lower equipment hire revenue.

Total comprehensive income has increased by $25,341,000 as a result of recognition of:

- $32,346,000 of biological assets being standing timber. Historically, the standing timber has been valued at $nil. However, given significant developments concerning the Group's proposal to construct a deep-water wharf, a discounted value has been recognised; and
- $2,612,000 of revalued forestry land, after adjusting for deferred tax, based on the highest and best use; offset by
- $7,630,000 tax expense primarily relating to the deferred tax on the revalued biological and forestry land assets;
- Wharf development costs increased by $154,000; and
- Director performance rights $1,461,000.

Forestry Investment Trust estate acquisition

The Group announced on the 31 October 2016 that it had executed the transaction documents giving effect to the Group's acquisition of the Forestry Investment Trust ("FIT") estate managed by New Forests Asset Management (New Forests) on Kangaroo Island, South Australia ("Acquisition"). The purchase includes all of the plantation land, standing timber and the Ballast Head site proposed by New Forests as a multi-user export facility, as per the Heads of Agreement ("HoA").

The transaction document's key terms:

(i) The consideration for the FIT estate will be $55 million, if settled by 28 April 2017.

Directors' Report continued

For the half-year ended 31 December 2016

(ii) If Settlement is delayed, and Kangaroo Island Plantation Timbers Limited notifies FIT prior to 31 March 2017, then a $10.464 million extension fee is payable, at the time of settlement, and the new settlement date will be 30 June 2017.

(iii) In the event that settlement takes place on or after 3 July 2017 but before 29 September 2017 the total amount payable at Completion will be automatically increased in accordance with the following formula:

- Amount payable = PP+EF+IC-ID-AD

Where:

- PP = Purchase Price of $55,000,000;
- EF = Extension Fee of $10,464,000;
- IC = Interest Charge of (N x $12,913.45) where N is the number of days between 3 April 2017 and the Completion Date.
- ID = Initial Deposit
- AD = Additional Deposit

(iv) A deposit of 10% is payable, being:

- The ID of
  - i. 5% of purchase price payable on signing of HoA (paid on 21 October 2016); and
  - ii. 5% of purchase price payable on exchange of the Agreement to give effect to the HoA (paid on 31 October 2016); and
- AD of 10% of the extension fee is payable upon notice of extension.

The Forestry Investment Trust estate on Kangaroo Island

The estate includes approximately 19,000 ha of land of which more than 10,700 is planted with Tasmanian blue gum (eucalyptus globulus). The current standing volume of timber is estimated at 2.4m green metric tonnes. Thus, the FIT estate acquisition will effectively quadruple the size of the Group's plantation area and triple its standing timber resource, with a corresponding increase in the Group's biological and land assets. Refer to Notes 9, 10 and 12 for further details.

Export facility

In February 2017, the Deputy Premier of South Australia and Minister for Planning, the Hon. John Rau SC MP, formally declared that the Group's Smith Bay wharf proposal will be assessed under the major projects pathway designated in s.46 of the South Australian Development Act 1993. Using this development pathway also removes any right of appeal by objectors against development consent.

Prior to the proposed FIT acquisition, the existence of an alternative proposal at Ballast Head had delayed acceptance and consideration of the Group's application. As a result of the FIT Acquisition, the Ballast Head proposal will be suspended and, following completion of the Smith Bay wharf, the Group will seek to dispose of the Ballast Head site.

The Group is committed to working with the South Australia Government to ensure that the benefits of the development to the community are maximised, and that any negative effects are minimised and, where possible, offset. With the assistance of the South Australia Government, the Group will seek to ensure that development consent is secured in a timely manner, with reasonable conditions. The Group is not seeking any direct financial assistance from the South Australia Government.

The export facility is expected to cost between $25 million and $30 million.

Rights Issue

On 1 December 2016, the Company successfully completed a fully underwritten 1 for 3.7 pro rata non-renounceable accelerated entitlement offer and raised $12.8 million (Offer) at $25.00 per ordinary share.

Directors' Report continued

For the half-year ended 31 December 2016

Events after balance date

On the 20 February 2017, the Group announced that the Deputy Premier of South Australia and Minister for Planning, the Hon. John Rau SC MP, had formally declared that the Group's Smith Bay wharf proposal will be assessed under the major projects pathway designated in s.46 of the South Australian Development Act 1993. This pathway provides for rigorous environmental assessment and extensive public consultation.

On 31 January 2017, the Group announced that it had signed a Memorandum of Understanding with Mitsui Bussan Woodchip Oceania Pty Ltd, an Australian subsidiary of the Japanese conglomerate Mitsui & Co Ltd, with a view to entering into an exclusive timber off-take agreement.

The Group held a General Meeting on 24 February 2017. The following matters were approved by Shareholders at the General Meeting:

- Approval of the Forestry Investment Trust estate acquisition;
- 10 for 1 Share Split;
- Election of Gregory Boulton AM as a Non-Executive Director;
- Approval of Non-Executive Directors' Share Plan; and
- Approval of issue of up to 89,999 Shares to Directors under the Performance Rights Plan for performance rights dated 24 February 2017.

The Group is not aware of any other significant events occurring after 31 December 2016.

Rounding

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

Dividends

No dividends have been declared or paid in this financial period.

Auditor independence and non-audit services

The directors have received the auditor's independence declaration, which is included on page 8 of this report and forms part of this report.

Signed in accordance with a resolution of the directors.

Paul McKenzie

Paul McKenzie
Chairman
Dated this 2nd March 2017

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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 review of Kangaroo Island Plantation Timbers Limited for the half-year ended 31 December 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 review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S K Edwards
Partner – Audit & Assurance

Adelaide, 2 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2016

	Notes	Consolidated 31 December 2016 $'000	 31 December 2015 $'000
Rent		**16**	18
Equipment hire		**15**	24
Bank interest		**21**	7
Plantation management		**80**	-
Revenue		**132**	49
Sale of property plant and equipment		**12**	(30)
Other income	3	**6**	90
Property expenses		**(143)**	(146)
Deep water wharf development costs		**(313)**	(159)
Administrative expenses		**(49)**	(27)
Other expenses	3	**(1,929)**	(300)
Finance costs		**(33)**	-
Fair value gain on biological assets	10	**32,346**	-
Profit/(loss) before income tax		**30,029**	(523)
Income tax (expense)/benefit	4	**(7,630)**	58
Net profit/(loss) for the period from continuing operations		**22,399**	(465)
Profit/(loss) for the period attributable to members of the parent		**22,399**	(465)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Net fair value gain/(loss) in property, plant and equipment	14	**2,612**	135
Other comprehensive income for the period net of tax		**2,612**	135
Total comprehensive income/(loss) for the period attributable to members of the parent		**25,011**	(330)
Earnings per share		**EPS in cents**	EPS in cents
Basic profit/(loss) per share from continuing operations	5	**1,175**	(27)
Diluted profit/(loss) per share from continuing operations	5	**1,175**	(27)

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 31 December 2016

	Notes	Consolidated 31 December 2016 $'000	Consolidated 30 June 2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	**6,480**	895
Trade and other receivables		**146**	73
Other current assets	7	**5,500**	-
		12,126	968
Assets classified as held for sale	8	**-**	200
Total current assets		**12,126**	1,168
Non-current assets			
Property, plant and equipment	9	**15,819**	12,145
Investment properties		**100**	100
Biological assets	10	**32,346**	-
Deferred tax asset	4	**4,782**	-
Other non-current assets		**5**	5
Total non-current assets		**53,052**	12,250
TOTAL ASSETS		**65,178**	13,418
LIABILITIES			
Current liabilities			
Trade and other payables		**167**	332
Employee benefits		**42**	29
Interest bearing liabilities	11	**-**	500
Total current liabilities		**209**	861
Deferred tax liabilities	4	**13,531**	-
Total non-current liabilities		**-**	-
TOTAL LIABILITIES		**13,740**	861
NET ASSETS		**51,438**	12,557
EQUITY			
Contributed equity	13	**28,802**	13,037
Reserves	14	**6,070**	5,353
Accumulated losses		**16,566**	(5,833)
TOTAL EQUITY		**51,438**	12,557

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

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2016

	Notes	Consolidated 31 December 2016 $'000	31 December 2015 $'000
Cash flows from operating activities			
Receipts from customers and other income		**31**	110
Payments to suppliers and employees		**(638)**	(392)
Payment to wharf development suppliers		**(419)**	-
Interest received		**21**	7
Borrowing costs		**(33)**	-
Net cash flows (used in)/from operating activities		**(1,038)**	(275)
Cash flows from investing activities			
Proceed from sale of investment properties		**215**	170
Purchase of biological assets		**(5,500)**	-
Net cash flows from/(used in) investing activities		**(5,285)**	170
Cash flows from financing activities			
Proceeds from share issue		**12,836**	-
Payment for share issue costs		**(428)**	
Repayment of borrowings		**(500)**	-
Net cash flows (used in)/from financing activities		**11,908**	-
Net increase/(decrease) in cash and cash equivalents		**5,585**	(105)
Cash and cash equivalents at beginning of period		**895**	938
Cash and cash equivalents at end of period	6	**6,480**	833

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2016

	Issued Capital $'000	Treasury Shares $'000	Property, plant & equipment Revaluation Reserve $'000	Option Reserve $'000	Accumulated Profits/ (Losses) $'000	Total $'000
Balance at 1 July 2015	13,233	(450)	3,323	272	(3,002)	13,376
Loss for the period	-	-	-	-	(465)	(465)
Other comprehensive income	-	-	135	-	-	135
Total comprehensive income	-	-	135	-	(465)	(330)
Share-based payments	97					97
Transactions with owners	97	-	-	-	-	97
Balance at 31 December 2015	**13,330**	**(450)**	**3,458**	**272**	**(3,467)**	**13,143**
Balance at 1 July 2016	13,487	(450)	3,458	1,895	(5,833)	12,557
Profit for the period	-	-	-	-	22,399	22,399
Other comprehensive income	-	-	2,612	-	-	2,612
Total comprehensive income	-	-	2,612	-	22,399	25,011
Share-based payments	3,357	-	-	(1,895)	-	1,462
Transactions with owners	3,357	-	-	(1,895)	-	1,462
Shares issued	12,836	-	-	-	-	12,836
Share issue costs	(428)	-	-	-	-	(428)
Shares issued	12,408	-	-	-	-	12,408
Balance at 31 December 2016	**29,252**	**(450)**	**6,070**	**-**	**16,566**	**51,438**

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

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2016

1. Corporate information

The financial report of Kangaroo Island Plantation Timbers Ltd ("the Company") and its controlled entities ("the Group" or "Consolidated Entity") for the half-year ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 2 March 2017. Kangaroo Island Plantation Timbers Ltd is a company incorporated and domiciled in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

2. Basis of preparation and accounting policies

(a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2016 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include full note disclosures of the type normally included within the annual financial report. Accordingly, it should be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Kangaroo Island Plantation Timbers Ltd during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and ASX Listing Rules.

There have been changes in accounting policy during the current period. The revised policies are set out in Note 2(a) to Note 2(e). All other accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

(b) Property, Plant and Equipment

Freehold land and buildings

Freehold land is measured at fair value (refer to Note 2(d)), less any impairment losses recognised at the date of revaluation. Historically, valuations based on the non-forestry use were performed frequently, at least every five years, to ensure that the fair value of a revalued asset did not differ materially from its carrying amount. The valuations were completed by external independent valuers.

In the current period, the Group has assessed that the route to market for its biological assets is now more probable than not (refer to 1(c) for further details). In accordance with AASB 13 *Fair Value Measurement* paragraph 27, the Group has reassessed the valuation basis as a result of the Group's biological asset, timber having a route to market; the land's highest and best use now being forestry land. All land valuations have been updated to reflect the highest and best use by the Board in the current period using a Discounted Cash Flow (DCF) method based on two rotations. In the future, historical valuations, comparable market transaction and other inputs will be considered if and when they become available. No third party market information is currently available on forestry land on Kangaroo Island. Further details of the property fair value valuation can be found in Note 9.

(c) Biological assets

The Group has an interest in radiata pine and eucalypt plantations (the biological assets) through plantation areas established and maintained on its own accord. The biological assets are valued by an external independent valuer. All biological assets were independently valued in the current period. In future periods biological assets not valued by an independent expert will be valued by the Directors' assessment to their fair value less costs to sell at each reporting period. The fair value is determined as the net present value of the expected future cashflows at harvest (discounted at a risk adjusted rate). Costs incurred in maintaining or enhancing the plantations are capitalised when incurred and are classified as additions at cost before the determination of the net increments in fair values.

Net increments or decrements in the fair value less cost to sell of the plantation trees are recognised as income or expenses in profit or loss, determined as the different between the total fair value less costs to sell of the trees recognised as at the beginning of the period, adjusted for costs incurred in maintaining or enhancing plantation trees which are capitalised, and the total fair value less costs to sell of the planation trees recognised as at the reporting date.

Further details including key assumptions can be found in Note 10.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

2. Basis of preparation and accounting policies (continued)

Plantations which are expected to be harvested, processed and monetised within 12 months are classified as current assets; all other biological assets are classified as non-current assets.

(d) Fair value measurements

Certain accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

Management has overall responsibility to oversee all significant fair value measurements, including Level 3 fair values; management report to the audit committee. Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as valuation report are used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of AASB 13 *Fair Value Measurement,* including the level in the fair value hierarchy in which such valuations should be disclosed. Significant valuation issues are reported to the Board of Directors.

The Group uses observable data as much as possible when measuring the fair value of an asset or liability. Fair values of assets or liabilities are categorised into different levels in the fair value hierarchy based in the lowest input used in the valuation techniques as follows:

- Level 1: quoted (unadjusted market prices in active markets for identical assets or liabilities.
- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following Notes:

- Note 9: Property, Plant and Equipment; and
- Note 10: Biological Assets.

Management assessed that cash and short-term deposits, trade receivables, other current financial assets, trade payables and other current liabilities carrying amounts approximate their fair values largely due to the short-term maturities of these instruments.

(e) 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.

2. Basis of preparation and accounting policies (continued)

The key judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2016. Management have identified new or revised certain key judgements, estimates or assumption since the 30 June 2016, as set out below.

Key Estimate – Valuation of biological assets

The Group has, until the prior period ending 30 June 2016, maintained a policy of valuing the standing timber element of its biological asset at $nil, primarily on the basis that historically there was no deep-water wharf on Kangaroo Island, through which the timber could be exported to markets in Asia.

However, over the past two years, the Group has acquired a deep-water wharf site in close proximity to its plantations, commissioned a full suite of reports needed for the preparation of an environmental impact statement, commissioned a report yielding a costed design for a wharf and has been working with local and state government and with other timber owners on Kangaroo Island to develop an affordable route to market, by the construction of a deep-water berth. In February 2017, the Deputy Premier of South Australia and Minister for Planning, the Hon. John Rau SC MP, formally declared that the Group's Smith Bay wharf proposal will be assessed under the major projects pathway designated in s.46 of the South Australian Development Act 1993. Major Development status (under section 46 of the Development Act) allows the planning decision regarding the Group's proposed deep water wharf at Smith Bay to be determined by the Minister for Planning, on the basis of criteria determined by the Development Assessment Commission, rather than at a local government level. Using this development pathway also removes any right of appeal by objectors against development consent.

In addition to obtaining Major Development Status, the Company has been preparing for the construction of an export wharf, it has also been preparing for the commencement of harvesting operations. This preparation has involved:

- development of an operating model for its operations (up to and post wharf completion);
- continual development of operational plans and financial models
- confirmation of Maritime Constructions as our wharf construction and maintenance partner;
- identification and engagement of a forestry consulting company (PF Olsen) to assist with an inventory of the estate and the pre-planning necessary for harvesting during 2018; and
- identification of and execution of an MoU with Mitsui in respect of marketing of the Company's resource.

The Group now considers the development of wharf infrastructure that allows exploitation of the substantial standing timber resource to be more probable than not. As a result, the Group believes it has sufficient certainty about the form and quantum of future cash flows to justify a change in valuation approach.

Kangaroo Island is one of the best places in Australia to grow eucalyptus globulus for use as a paper feedstock (as indicated by achieved growth rates). The majority of the timber on Kangaroo Island is harvest-ready, therefore harvesting could commence immediately. PF Olsen have prepared a harvesting plan for the next 12 years to maximise returns from the Group's existing biological asset.

As referred to in Note 2(c), the Directors have used an independent valuer to estimate the fair value less cost to sell of the standing plantation trees held by the Group. The carrying value of the standing plantation trees at the reporting date is shown in Note 10. The fair value less cost to sell is calculated as the net present value of expected future cash flows. The biological asset valuation is sensitive to estimates used by the independent valuer in calculating the expected future cash flows which include key assumptions on yields of radiata pine and eucalypt plantation timber, as well as assumptions as to the future price of timber and the USD exchange rate.

The valuation also includes assumptions on the expected future harvesting, processing and wharf costs. The wharf costs include an element of the Kangaroo Island deep water wharf construction and operational cost; the construction costs will only be charged to Kangaroo Island timber exporters. All estimates are based on the best information currently available, maximising the input of market observable data. Where there is any doubt, the Group uses the more conservative estimates.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

2. Basis of preparation and accounting policies (continued)

Variations to expected future cash flows, and timing thereof, could result in significant changes to the biological asset valuation, which in turn could impact future financial results.

The determination of radiata pine and eucalypt plantation timber yield requires significant judgement. In making this judgement, the Independent valuer evaluates, among other factors, the growth rates and survival rates achieved to date.

The Board has elected to use valuations provided by the independent external valuer but to adjust these values downwards to account for the remaining uncertainty regarding the time at which a route to market would become available.

Key Estimate – Valuation of Land

The Group has, until the current period, estimated the fair value of the land using the key observable input: agriculture land sales (after allowing for fencing and another costs) on Kangaroo Island; primarily on the basis that historically there was no deep-water wharf on Kangaroo Island, through which the timber could be exported to markets in Asia.

However, over the past two years, the Group has acquired a deep-water wharf site in close proximity to its plantations, commissioned a full suite of reports needed for the preparation of an environmental impact statement, commissioned a report yielding a costed design for a wharf and has been working with local and state government and with other timber owners on Kangaroo Island to develop an affordable route to market, by the construction of a deep-water berth. In February 2017, the Deputy Premier of South Australia and Minister for Planning, the Hon. John Rau SC MP, had received formally declared that the Group's Smith Bay wharf proposal will be assessed under the major projects pathway designated in s.46 of the South Australian Development Act 1993.

The Group now considers the development of wharf infrastructure that allows exploitation of the substantial standing timber resource to be more probable than not. As a result, the Group believes it has sufficient certainty about the form and quantum of future cash flows to justify a change in valuation approach.

At period end, the Directors are required to make an assessment as to the fair value of land held. In assessing the fair value of land held, the Directors have re-assessed the highest and best use in accordance with AASB 13 *Fair Value Measurement* paragraph 27, as a result of the Group's biological asset, timber now having a probable route to market. The land's highest and best use is now forestry land rather than encumbered non-forestry land. The land has been valued using a Discount Cash Flow ("DCF") method based on two rotations. Historical valuations, comparable market transaction and other inputs were also considered. Refer to Note 9 for details of assumptions and potential impact of changes in assumptions.

Key Estimate – Valuation 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 30 June 2016 and 31 December 2016 financial period 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 Notes 14 and 15 for further details.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

2. Basis of preparation and accounting policies (continued)

(f) Going concern assumption

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 period ended 31 December 2016, the Group earned a net profit after tax of $22,399,000, this includes non-cash flow gains of $24,716,000. The Group's net cash outflow used in operating activities amounted to $1,038,000.

At the 31 December 2016, the Group's the cash and cash equivalents balance was $6,480,000 and the net asset position was $51,438,000.

The Group's primary focus is consolidation and rationalisation of the Group's operations on Kangaroo Island. This will require operational cost control and the sale of non-core assets.

The Directors are considering certain options to raise the necessary funds to execute the Group's plans and is working with a range of capital providers. 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.

Should the Group not achieve the matter set out above, there is uncertainty whether the Group will 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. Other income and expenses

	Consolidated	
	31 December 2016 $'000	31 December 2015 $'000
Other income: bad debts recovered	**6**	90
Property expenses: salaries and wages	**79**	79
Other Expenses		
Managing director's fees	**37**	19
Managing director's fees paid in shares	**-**	19
Managing director's performance rights	**731**	-
Directors fees	**83**	37
Directors fees paid in shares	**-**	37
Directors performance rights	**731**	-
Total employee and directors remuneration	**1,582**	112
Professional fees	**106**	42
Legal fees	**60**	8
ASX/Share registry fees/ASIC fees	**85**	33
Audit fees	**38**	24
Depreciation	**58**	81
	1,929	300

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

4. Income tax

	Consolidated 31 December 2016 $'000	31 December 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	**7,630**	(58)
Income tax expense/(benefit) reported in profit or loss	**7,630**	(58)
Profit/(loss) before tax	**30,029**	(523)
At the statutory income tax rate of 30% (2015: 30%)	**9,009**	(157)
Non-deductible expenses/capital gain on sale of land	**438**	404
Other deductions	**-**	-
Tax losses brought into account as a deferred tax asset	**(1,817)**	-
Tax loss not brought to accounts as a deferred tax asset	**-**	(305)
Income tax expense/(benefit) reported in income statement	**7,630**	(58)
b) Amounts charged or credited to other comprehensive income		
Deferred income tax related to items charged/(credited) to equity		
Net gain on property, plant and equipment	**1,120**	58
Income tax expense reported in equity	**1,120**	58

Recognised deferred tax assets and liabilities

	Assets		**Liabilities**		**Net**	
	31 December 2016 $'000	30 June 2016 $'000	**31 December 2016 $'000**	30 June 2016 $'000	**31 December 2016 $'000**	30 June 2016 $'000
CONSOLIDATED						
Trade and other receivables	**-**	(4)	**-**	-	**-**	(4)
Property, plant and equipment	**19**	19	**(3,827)**	2,774	**(3,808)**	2,793
Biological assets	**-**	-	**(9,704)**	-	**(9,704)**	-
Trade and other payables	**(13)**	(13)	**-**	-	**(13)**	(13)
Tax losses	**4,776**	(2,776)	**-**	-	**4,776**	(2,776)
Tax (assets)/liabilities	**4,782**	(2,774)	**(13,531)**	2,774	**(8,749)**	-
Set off of tax	**-**	2,774	**-**	(2,774)	**-**	-
Net tax (assets)/liabilities	**4,782**	-	**(13,531)**	-	**(8,749)**	-

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

5. Earnings per share

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

a) Earnings used in calculating earnings per share

	Consolidated	
	31 December 2016 $'000	31 December 2015 $'000
Continuing Net profit/(loss) attributable to ordinary equity holders of the parent	**22,399**	(465)

a) Weighted average number of shares

	No.	*No.*
Weighted average number of ordinary shares for basic earnings per share	**1,906,038**	1,692,402
Effect of dilution:		
Share options	**-**	-
Weighted average number of ordinary shares adjusted for the effect of dilution	**1,906,038**	1,692,402

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.

6. Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following at 31 December 2016.

	Consolidated	
	31 December 2016 $'000	31 June 2016 $'000
Cash at bank and in hand	**6,480**	895

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 $6,480,000 (December 2015: $833,000).

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

7. Other current assets

	Consolidated	
	31 December 2016 $'000	31 June 2016 $'000
Forestry Investment Trust acquisition deposit	**5,500**	-

The Group announced on the 31 October 2016 that it has executed the transaction documents giving effect to the Group's acquisition of the Forestry Investment Trust ("FIT") estate managed by New Forests Asset Management (New Forests) on Kangaroo Island, South Australia ("Acquisition"). The purchase includes all of the plantation land, standing timber and the Ballast Head site proposed by New Forests as a multi-user export facility, as per the Heads of Agreement ("HoA"). Under the HoA the Group paid a $5,500,000 deposit.

The transaction document's key terms:

(i) The consideration for the FIT estate will be $55 million, if settled by 28 April 2017.

(ii) If Settlement is delayed, and Kangaroo Island Plantation Timbers Limited notifies FIT prior to 31 March 2017, then a $10.464 million extension fee is payable, at the time of settlement, and the new settlement date will be 30 June 2017.

(iii) In the event that settlement takes place on or after 3 July 2017 but before 29 September 2017 the total amount payable at Completion will be automatically increased in accordance with the following formula:

Amount payable = PP+EF+IC-ID-AD

Where:

- PP = Purchase Price of $55,000,000;
- EF = Extension Fee of $10,464,000;
- IC = Interest Charge of (N x $12,913.45) where N is the number of days between 3 April 2017 and the Completion Date.
- ID = Initial Deposit
- AD = Additional Deposit

(iv) A deposit of 10% is payable, being:

- The ID of
    i. 5% of purchase price payable on signing of HoA (paid on 21 October 2016); and
    ii. 5% of purchase price payable on exchange of the Agreement to give effect to the HoA (paid on 31 October 2016); and
- AD of 10% of the extension fee is payable upon notice of extension.

The Forestry Investment Trust estate on Kangaroo Island

The estate includes approximately 19,000 ha of land of which more than 10,700 is planted with Tasmanian blue gum (eucalyptus globulus). The current standing volume of timber is estimated at 2.4m green metric tonnes. Thus, the FIT estate acquisition will effectively quadruple the size of the Group's plantation area and triple its standing timber resource, with a corresponding increase in the value of the Group's biological and land assets once acquired.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

8. Assets Classified as Held for Sale

During the prior period, the Company sold one property that has now been subdivided and settlement occurred in October 2016. The properties comprised:

- Part of the land known as Lycurgus was sold for $215,000 (book value $200,529).

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

	Consolidated	
	31 December 2016 $'000	30 June 2016 $'000
Property, plant & equipment assets classified as held for sale	**-**	200
Investments assets classified as held for sale	**-**	-
	-	200

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

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

	Land $'000	Plant and equipment $'000	Total $'000
Half-year ended 31 December 2016			
At 1 July 2016 net of accumulated depreciation and impairment	11,672	473	12,145
Revaluation	3,732	-	3,732
Depreciation charge for period	(15)	(43)	(58)
At 31 December 2016 net of accumulated depreciation and impairment	**15,389**	**430**	**15,819**
Cost or fair value	15,558	1,166	**16,724**
Accumulated depreciation and impairment	(169)	(736)	(905)
Net carrying amount	**15,389**	**430**	**15,819**
Year ended 30 June 2016			
At 1 July 2015 net of accumulated depreciation and impairment	11,395	691	12,086
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

b) Revaluation

Fair Value Measurement of the Group's Freehold Land and Buildings

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 31 December 2016 are based on directors' valuation in accordance with AASB116, based on a Discount Cash Flow ("DCF") method.

Historically valuations based on the non-forestry use were performed frequently, at least every five years, to ensure that the fair value of a revalued asset did not differ materially from its carrying amount. The valuations were completed by external independent valuers.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

9. Non-current assets – Property, plant and equipment (continued)

In the current period, the Group's has assessed that the route to market for its biological assets is now more probable than not (refer to Note 10 for further details) and biological assets are now being recognised, accordingly the land must be valued on the same basis: that the Groups land is forestry land.

In accordance with AASB 13 *Fair Value Measurement* paragraph 27, the Group has reassessed the valuation basis as a result of the Group's biological asset, timber, having a route to market; the land's highest and best use is now as forestry land. The land valuations have been reviewed by the Board in the current period, the land is currently valued using a DCF method based on two rotations. The DCF inputs are based on the model prepared by the Directors, the underlying cost forecasts are materially similar to those used by the independent expert, Geddes Management Pty Ltd to value the Biological asset. Refer to Note 10 for details of the Biological asset model inputs.

All fair value estimates for land and buildings are included in Level 3 of the fair value hierarchy. The following information shows the key inputs used in the Group's DCF valuation model for measuring fair value of freehold land. The model estimated that the land using it best use scenario and intended future use, being plantation land, has a fair value of $2,005 per title hectare.

Significant Observable Inputs

(i) Land valued using, in effect, the NPV of two future timber rotations' net returns, allowing for the fact that these crops cannot be established until after the current crop has been harvested. A nominal discount rate of 9.6% was used in these calculations.

(ii) Model incorporates the pattern of land availability after harvest of the current crop, with an assumed 12 year rotation pattern and an even harvest plan.

(iii) No value has been ascribed to uncleared land under natural vegetation.

10. Biological assets

	Consolidated	
	31 December 2016 $'000	30 June 2016 $'000
Plantation timber at cost	**-**	-
Add fair value adjustment:		
Fair value gain	**32,346**	-
Total biological assets	**32,346**	-
Classified as current	**-**	-
Classified as non-current	**32,346**	-

The Group has, in prior periods, 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 two years, the Group has acquired a deep-water wharf site in close proximity to its plantations, commissioned a full suite of reports needed for the preparation of an environmental impact statement, 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.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

10. Biological assets (continued)

In February 2017, the Deputy Premier of South Australia and Minister for Planning, the Hon. John Rau SC MP, formally declared that the Group's Smith Bay wharf proposal will be assessed under the major projects pathway designated in s.46 of the South Australian Development Act 1993, Major Development status (under section 46 of the Development Act) allows the planning decision regarding the Group's proposed deep water wharf at Smith Bay to be determined by the Minister for Planning, on the basis of criteria determined by the Development Assessment Commission, rather than at a local government level. Using this development pathway also removes any right of appeal by objectors against development consent.

The Group now considers the development of wharf infrastructure that allows exploitation of the substantial standing timber resource to be more probable than not. As a result, the Group believes it has sufficient certainty about the form and quantum of future cash flows to justify a change in valuation approach.

Fair value

The fair value measurements for the biological assets have been independently valued by Geddes Management Pty Ltd ("Geddes") and as such are categorised as Level 3 in the fair value hierarchy.

The Directors have taken a more conservative approach than Geddes and have discounted the valuation further to take into account other external factors, primarily in respect to level of uncertainty of the timing of wharf approval and funding wharf construction:

Species	**Geddes valuation $'000**	**Directors' valuation $'000**
Eucalyptus globulus	13,776	12,886
Eucalyptus nitens	2,261	2,085
Pine radiata	19,521	17,375
Total	35,558	32,346

Independent expert's valuation technique

The valuation model used by Geddes allows the Group to estimate the value of its timber under various scenarios, and considers the impact of variables within and outside the Group'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.

Discounted Cash Flows:

The valuation model considers the present value of the net cash flows expected to be generated by the plantations. The cash flow projections include specific estimates until harvest. The expected net cash flows are discounted using a risk -adjusted discount rate.

Significant Observable Market Inputs

US Dollar exchange rate used is used consistently throughout the valuation model at 1.311 AUD (source www.bloomberg.com).

Significant Unobservable Inputs

(i) Current trees are between 14 and 36 years old. The Geddes model assumes a harvesting plan over up to 12 years, commencing in 2018 or 2019.

Significant Observable Inputs

(i) The price of hardwood logs / chips is determined after consideration of current market transactions, arriving at a log price of $94.09 per green metric tonne (GMT) after a 2.5% sales commission. The estimate is in 2017 real dollars.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

10. Biological assets (continued)

(ii) The prices of pine logs is determined for a range of log grades after consideration of current market transactions. It is assumed that pulp logs have no market value. Using the PF Olsen inventory data, an estimate of revenue per hectare at harvest is calculated on a property by property basis. The average price per property varies from $76.08 to $130.10 / GMT. These estimates are again in real 2017 dollars and after a 2.5% sales commission.

(iii) Costs to maintain the plantations are estimated on a per ha per annum basis. Prior to harvest an allowance is made for in plantation roading costs. This is also denominated on a per ha basis and varies widely according to the specific conditions on each plantation property. The costs at harvest (harvesting, haulage, port access and other pre-export costs are also estimated on a per property basis for both hardwood and softwood.

(iv) The valuation is derived using a real pre-tax discount rate of 10.02% (nominal 11.67%).

A deferral in harvest year may result in higher production as a more mature tree is harvested, which may result in a changed fair value measurement, depending on the ratio of the growth rate to the discount rate.

11. Interest-bearing liabilities

	Consolidated	
	31 December 2016 $'000	30 June 2016 $'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 Kangaroo Island Plantation Timbers Limited, Mr Paul McKenzie, agreed to lend $500,000 to the Group and to provide a loan facility up to a further $50,000. $500,000 of the loan was drawn down in June 2016. Interest was changed at a rate of 8% per annum. The loan was secured by a first ranking mortgage over two of the Group'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 was repaid in full in October 2017.

12. 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 31 December 2016:

31 December 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Property, plant and equipment				
Land held for production in Australia (Note 9)	-	-	15,389	**15,389**
Assets classified as held for sale (Note 8)	-	-	-	**-**
Biological assets				
Standing timber (Note 10)	-	-	32,346	**32,346**
Investment property				
Non-current asset land held for sale	-	-	100	**100**

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

12. Fair value measurement of non-financial instruments (continued)

30 June 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Property, plant and equipment				
Land held for production in Australia (Note 9)	-	-	11,672	**11,672**
Assets classified as held for sale (Note 8)	-	-	200	**200**
Investment property				
Non-current asset land held for sale	-	-	100	**100**

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)

Fair value of the Group's main property assets is estimated by the Directors with reference to the highest and best use of the property asset, being forestry land. The valuation is based on a discounted cash flow, see Note 9 for further details.

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 as held for sale (Level 3)

Arable land properties with a fair value of $nil (June 2016: $203,529) have been sold for $nil (June 2016: $215,000), contracts were exchanged in March 2015 and settlement occurred in October 2016.

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.

Biological assets (Level 3)

The fair value of the biological assets was calculated by an independent expert Geddes Management Pty Ltd (Geddes) in in their report dated 24 February 2017. The valuation model used by Geddes allows the Group to estimate the value of its timber under various scenarios, and to consider the impact of variables within and outside the Group'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. Refer to Note 10 for further details.

Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

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.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

13. Contributed equity

a) Issued and paid up capital

	Consolidated	
	31 December 2016 $'000	30 June 2016 $'000
Ordinary shares fully paid	**28,802**	13,037

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

b) Movements in shares on issue

	31 December 2016		30 June 2016	
	Number of shares	**$'000**	Number of shares	$'000
Beginning of financial period	**1,718,884**	**13,037**	1,685,678	12,783
Share-based payment (Note 15)	**180,000**	**3,357**	33,206	254
Share issue	**513,468**	**12,836**	-	-
Share issue costs	**-**	**(428)**	-	-
End of the financial period	**2,412,352**	**28,802**	1,718,884	13,037

14. Reserves

	Consolidated	
	31 December 2016 $'000	30 June 2016 $'000
Option reserve (a)	**-**	1,895
Property, plant and equipment reserve (b)	**6,070**	3,458
	6,070	5,353

a) Option reserve

	Consolidated	
	31 December 2016 $'000	30 June 2016 $'000
Opening balance	**1,895**	272
Movement	**(1,895)**	1,623
Closing balance	**-**	1,895

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 obtained 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.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

14. Reserves (continued)

A summary of the Performance Rights 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**	

Valuation of Performance Rights

AASB 2 *Share-Based Payment* requires that the Group record the cost of all forms of Director remuneration in the Group'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 valuations are set out in the table below.

	AASB 2 valuation		
20 Business Day VWAP	**Expenses recognised 30 June 2016 $**	**Expense recognised 31 December 2016 $**	**Total valuation $**
Total	**1,622,729**	**1,462,033**	**3,083,761**

Refer to Note 15 for further information.

b) Property, plant and equipment revaluation reserve

	Consolidated	
	31 December 2016 $'000	30 June 2016 $'000
Opening balance	**3,458**	3,323
Fair value gain on property, plant and equipment (Note 9)	**3,732**	193
Deferred income tax relating the fair gain on property, plant and equipment (Note 4)	**(1,120)**	(58)
Closing balance	**6,070**	3,458

The property, plant and equipment revaluation surplus is used to record increments and decrements 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.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

14. Reserves (continued)

In the current period the Group's has assessed that the route to market for its biological assets is now more probable than not (refer to Note 10 for further details), as a result the Group has reassessed the valuation basis for forestry land; the land's highest and best use is now forestry land. The Directors have valued forestry land using a DCF method based on two rotations (refer to Note 9 for further details). The deferred tax on the gain amounts to $1,119,653

Prior period

During the prior period, an agreement was signed to remove the encumbrance from one of the Group's properties; the removal of the encumbrance resulted in an uplift in fair value of $302,966. The removal of the encumbrance resulted in 8,670 of shares being issues at $12.60 per share (being the quoted share price on date of issue, 14 January 2016), total $109,242, resulting a fair value gain of $193,724. The deferred tax on the gain amounted to $58,118.

15. Share-based Payment

Recognised share-based payment expenses

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

	Consolidated	
	31 December 2016 $'000	31 December 2015 $'000
Performance rights issues	**1,462**	-
Expense arising from equity-settled share-based payment transactions	**-**	97
Total expense from share-based payment transactions	**1,462**	97

Equity-settled share-based payment transactions

During the current period the following $1,462,033 (31 December 2015: $97,075) of directors' remuneration was paid in shares:

Director	Number of Shares issued	Share Price on date issued
John Sergeant (1)	35,000	$19.20
Paul McKenzie (1)	11,667	$19.20
Graham Holdaway (1)	11,667	$19.20
Shauna Black (1)	11,667	$19.20
Total at $19.20	**70,001**	**$19.20**
John Sergeant (2)	30,000	$22.00
Paul McKenzie (3)	10,000	$22.00
Graham Holdaway (3)	10,000	$22.00
Shauna Black (3)	10,000	$22.00
Total at $8.00	**60,000**	**$22.00**
John Sergeant (3)	25,000	$27.10
Paul McKenzie (3)	8,333	$27.10
Graham Holdaway (3)	8,333	$27.10
Shauna Black (3)	8,333	$27.10
Total at $8.00	**49,999**	**$27.10**

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

15. Share-based Payment (continued)

(1) Shares in the Company to the Directors, John Sergeant, Paul McKenzie, Shauna Black and Graham Holdaway under the Plan for performance rights dated 18th January 2016 following the achievement of all conditions including a VWAP threshold of $15.00;

(2) Shares in the Company to the Directors, John Sergeant, Paul McKenzie, Shauna Black and Graham Holdaway under the Plan for performance rights dated 18th January 2016 following the achievement of all conditions including a VWAP threshold of $20.00;

(3) Shares in the Company to the Directors, John Sergeant, Paul McKenzie, Shauna Black and Graham Holdaway under the Plan for performance rights dated 18th January 2016 following the achievement of all conditions including a VWAP threshold of $25.00;

During the period, all performance rights were issued and valued at $3,083,761, of which $1,462,033 is recognised in the period ended 31 December 2016 and $1,622,729 in the period ended 30 June 2016, based on AASB 2 *Share-based payments*.

Prior period

(1) On 18 September 2015, 3,542 ordinary shares were issued to Shauna Black in lieu of director's fees for the period ending 30 June 2015 amounting to $14,168 (net of GST). On 7 December 2015 1,562 ordinary shares were issued to Shauna Black in lieu of director's fees amounting to $12,496.

(2) On 18 September 2015, 3,542 ordinary shares were issued to Graham Holdaway in lieu of director's fees for the period ending 30 June 2015 amounting to $14,168 (net of GST). On 7 December 2015 1,562 ordinary shares were issued to Graham Holdaway in lieu of director's fees amounting to $12,496 (net of GST).

(3) On 18 September 2015, 3,125 ordinary shares were issued to John Sergeant in lieu of director's remuneration for the period ending 30 June 2015 amounting to $12,500 (net of GST). On 7 December 2015 2,344 ordinary shares were issued to John Sergeant in lieu of director's remuneration amounting to $18,752.

(4) On 7 December 2015, 1,562 ordinary shares were issued to Paul McKenzie in lieu of director's fees amounting to $12,496 (net of GST).

16. Commitments

There are no operating lease commitments at 31 December 2016 or 30 June 2016.

17. Contingent assets and liabilities

The directors are not aware of any 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.

There are no other contingent assets or contingent liabilities at 31 December 2016.

18. Operating segments

The Directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and have concluded that there are no separately identifiable segments.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2016

19. Events after balance date

On the 20 February 2017, the Group announced that the Deputy Premier of South Australia and Minister for Planning, the Hon. John Rau SC MP, had formally declared that the Group's Smith Bay wharf proposal will be assessed under the major projects pathway designated in s.46 of the South Australian Development Act 1993. This pathway provides for rigorous environmental assessment and extensive public consultation.

On 31 January 2017, the Group announced that it had signed a Memorandum of Understanding with Mitsui Bussan Woodchip Oceania Pty Ltd, an Australian subsidiary of a Japanese conglomerate Mitsui & Co Ltd, with a view to entering into an exclusive timber off-take agreement.

The Group held a General Meeting on 24 February 2017. The following matters were approved by Shareholders at the General Meeting:

- Approval of the Forestry Investment Trust estate acquisition;
- 10 for 1 Share Split;
- Election of Gregory Boulton AM as a Non-Executive Director;
- Approval of Non-Executive Directors' Share Plan; and
- Approval of issue of up to 89,999 Shares to Directors under the Performance Rights Plan for performance rights dated 24 February 2017

The Group is not aware of any other significant events occurring after 31 December 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:

a) The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
   i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
   ii) Comply with Accounting Standards AASB 134 Interim Financial Reporting; and
b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Paul McKenzie
Chairman

Dated this 2nd day of March 2017

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

We have reviewed the accompanying half-year financial report of Kangaroo Island Plantation Timbers Ltd (the Company), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of Kangaroo Island Plantation Timbers Ltd are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kangaroo Island Plantation Timbers Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kangaroo Island Plantation Timbers Ltd is not in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty relating to Going Concern

Without qualifying our opinion, we draw attention to Note 2 (f) in the financial report which indicates that the consolidated entity incurred a net loss before tax excluding the biological assets revaluation of $2,317,000 and net cash outflows from operating and investing activities equating to $6,323,000. The consolidated entity requires additional capital and is working with a range of capital providers. These conditions, along with other matters as set forth in Note 2 (f), 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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S K Edwards
Partner - Audit & Assurance

Adelaide, 2 March 2017