

Kangaroo Island
PLANTATION TIMBERS



Kangaroo Island Plantation Timbers Ltd
(previously RuralAus Investments Ltd)
ABN: 19 091 247 166

Annual Financial Report

For the year ended 30 June 2013

Corporate Information

Directors

Paul Lawrence McKenzie (Chairman)
Frederick Raymond Woollard
John David Sergeant

Company Secretary

Victoria Marie Allinson

Registered Office and Principal Place of Business

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Solicitors

Paul Fletcher & Co
Level 3 45 St George Street
Perth
Western Australia 6000

Sheena Jackson Lawyer
PO Box 318
Aldgate
South Australia 5154

Bankers

National Australia Bank Limited
100 St Georges Terrace
Perth
Western Australia 6000

Auditor

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

Share Register

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth
Western Australia 6000
Telephone: (08) 9323 2000

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

Website

www.kipt.com.au

Australian Stock Exchange Code

KPT (previously RUR)

Directors' Report

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Directors' Report

Your directors submit their report for the year ended 30 June 2013.

Directors

The names and details of the company's directors in office during the financial year and until the date of this report are as follows: 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, AAAC, AIAST – *Non Executive Chairman*

Paul is the Managing Partner of Agrarian Management, a leading Western Australian agriculture consultancy with offices in Perth and Geraldton. Paul has 22 years experience in agribusiness, management, finance and primary production, and owns a cereal and oilseed farm in WA. He is a member of the WA Agriculture Minister's Agri Advisory Council, Past President of the Australian Association of Agricultural Consultants (WA) Inc, and a director of Rural Financial Counselling Service (WA) ("RFCS") since 2008. RFCS administers a federal government funded program in WA under the Department of Agriculture, Fisheries and Forestry.

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.

Frederick Raymond Woollard (appointed 11 March 2008)

B.Ec, F.Fin, GAICD – *Non Executive Director*

Fred is Managing Director of Samuel Terry Asset Management Pty Ltd ("Samuel Terry"), a Sydney-based funds manager.

Fred has worked in stock broking and funds management for over 30 years, in Australia and in Europe. Before establishing Samuel Terry, he was a director of Hunter Hall International Ltd in London.

Fred was appointed to the board of the company on 11 March 2008. He was also appointed a director of Hamilton Securities Ltd on 14 July 2009, which is listed on the National Stock Exchange. He has not been a director of any other publicly listed company in the last three years.

John Sergeant (appointed 2 March 2013)

B.Sc. B.A.(Hons I) FAMSRS MAICD - *Non-executive Director*

John 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 is a lecturer in the Business School, teaching Marketing at the postgraduate level.

He has managed a number of successful professional services firms, served on the boards of Australian and multinational professional services businesses and, for four years, was the President of the Australian Market and Social Research Society, of which he is a fellow. For the last ten years, John has been the Vice Principal of St Andrew's College, within the University of Sydney.

He is currently a member of the boards of a number of private companies and of several charitable institutions.

Directors' Report

Ian Peter Olson (resigned 26 February 2013)

CA, B.Comm, MAICD, AIMM – *Non Executive Director*

An experienced Chartered Accountant, Ian brings extensive knowledge in corporate advisory, audit and assurance to the Board. Ian was formerly Managing Partner of PKF Chartered Accountants in Western Australia and is now owner and Executive Chairman of the King Group, a diversified surveying, drafting, mapping and GIS business. Ian is currently a Non-Executive Chairman of ASX listed company Diploma Group Limited, appointed 10 October 2007 and Non-Executive Chairman of ASX listed company Gage Roads Brewing Co Limited, appointed 12 November 2007.

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:

Post consolidation of shares (one share issued for every five hundred held)

| | Ordinary Shares Direct Interest | Ordinary Shares Indirect Interest | Options |
|-----------------------------------|------------------------------------|--------------------------------------|---------|
| Paul McKenzie ⁽¹⁾ | - | 55,840 | - |
| Frederick Woollard ⁽²⁾ | 102 | 567,968 | - |
| John Sergeant ⁽³⁾ | 10,686 | 23,114 | - |

Pre-consolidation of shares

| | Ordinary Shares Direct Interest | Ordinary Shares Indirect Interest | Options |
|-----------------------------------|------------------------------------|--------------------------------------|---------|
| Paul McKenzie ⁽¹⁾ | - | 27,919,781 | - |
| Frederick Woollard ⁽²⁾ | 51,000 | 283,984,107 | - |
| John Sergeant ⁽³⁾ | 5,342,968 | 11,556,727 | - |

- (1) 41,951 (pre-consolidation 20,975,337) 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 13,889 (pre-consolidation 6,944,444 ordinary shares were issued to Agrarian Consulting Pty Ltd <Paul McKenzie family A/C) of which Paul McKenzie is the Managing Director.
- (2) 567,968 (pre-consolidation 283,984,107) of these shares are held by JP Morgan Nominees as custodian of the Samuel Terry Absolute Return Fund. Mr Woollard is Managing Director of Samuel Terry as trustee of the Samuel Terry Absolute Return Fund.
- (3) John Sergeant shares are held by:
 - a. Direct interest 10,686 (pre-consolidation 5,342,968).
 - b. Sergeant Family Trust 8,216 (pre-consolidation 4,107,977). Mr Sergeant has effective control of his family trust.
 - c. Sergeant Family Superannuation Fund 11,518 (pre-consolidation 5,758,750). Mr Sergeant has effective control of his self-managed superannuation fund.
 - d. Ms J Sergeant 3,380 (pre-consolidation 1,690,000). Ms Sergeant is Mr Sergeant's wife.

Directors' Report

CFO and Company Secretary

Victoria Allinson (appointed 14 May 2013)

FCCA, ACSA

Victoria is a Fellow of The Association of Certified Chartered Accountants and a member of Chartered Secretaries 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.

Vicky is currently Chief Financial Officer (CFO) for a number of ASX listed exploration companies and a number of other entities. Previously, Vicky has been company secretary and 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.

Scott Wallace (resigned 15 April 2013)

CA, B.Comm

Scott is a Chartered Accountant with more than 13 years in the corporate reconstruction area of several major accounting firms including KPMG, Ernst & Young and KordaMentha. During this time, Scott spent two years on secondment to a major Australian bank in their specialised business services division.

Company Secretary

Graham Allan Seppelt (appointed 15 April 2013 resigned 14 June 2013)

CPA

Mr Seppelt is a Certified Practicing Accountant (CPA) with 40 years' experience and a wide exposure to a range of industries as a senior manager and contract accountant in corporate advisory roles. He is also company secretary for ASX listed companies BSA Limited, Mesbon China Nylon Limited, UXA Resources Limited and Legend Corporation Limited.

Dividends

The directors have resolved not to declare a dividend for the year ended 30 June 2013. No dividends were paid during the previous year.

Principal activities

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

In prior year the principal activity was the management of forestry based managed investment scheme ("MIS") projects, the provision of related forestry service, lending for investment in forestry based managed investment projects and the production of sawn timber and posts from the sawmill on Kangaroo Island.

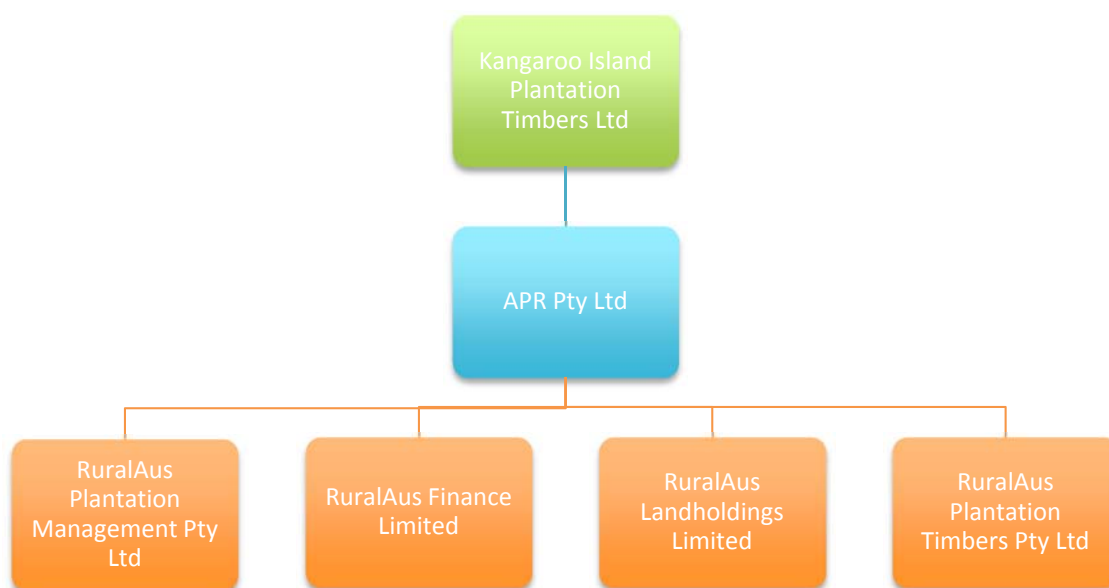
There have been no other significant changes in the nature of those activities during the year.

Directors' Report

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:



Employees

The consolidated entity employed 2 employees at 30 June 2013 (2012: 10 employees).

Operating and financial review

Group overview

A strategic review of the Group's operation in 2013 resulted in a complete restructure of the Group's operations, mostly during the latter part of the 2013 financial year, and by the fact that loss-making sawmilling operations were more extensive in 2013. In particular, the changes listed below each had a material effect on the financial sustainability of the Group.

- Acting with the responsible entity and after appropriate grower consultation, the Group completed most of the steps involved in terminating all of the MIS projects in which it was involved, assuming ownership of the subject trees, partially refunding grower payments and writing off the remaining value of loans to former growers. This also enabled the Group to exit costly timber-growing operations in Western Australia on leased land.

Directors' Report

Operating and financial review (continued)

- The Group closed its head office in Perth, making redundant all Western Australian staff. Significant termination costs were incurred. The Group transitioned to a more streamlined head office arrangement, based in South Australia. The two senior officers of the Group are now engaged on a part-time consultancy basis, while two full time staff members are retained on Kangaroo Island.
- Loss-making sawmilling operations, which had commenced in January 2012 (after a period of refurbishment) and impacted negatively on the 2013 results, were interrupted by a fire in February 2013. It was subsequently decided to suspend mill operations indefinitely, dispose of stockpiled timber in an orderly fashion and place the mill into care and maintenance until timber prices improved.
- The Group acquired some partially-forested land and, in addition, changed its approach to valuing its existing land and timber assets. Land values have now been determined by reference to the price of comparable arable agricultural land. Standing timber has been treated either as valueless or, in the case of those investment properties identified as being suitable for remediation and complete or partial reversion to agriculture, as an encumbrance. Areas of native vegetation and structural improvements to land (other than the sawmill itself) are carried at zero value.

In addition to these matters directly affecting the financial results, the Group has conducted a successful capital-raising.

The Group now approaches 2014 as a more transparent entity, with greatly-reduced on-going costs and a valuable collection of largely-unencumbered assets. Recent falls in the Australian Dollar and a continuation of recent rises in prices obtained for hardwood and softwood forest products place the Group in a position to benefit from increases in the value of its standing timber and from its strategic position as the owner of Kangaroo Island's only sawmill. The Group remains committed to working with other timber producers on Kangaroo Island, and with local and state government, to develop improved shipping arrangements and to explore the feasibility of using softwood residues and hardwood timber as feedstock for electricity generation on Kangaroo Island.

Results of operations

Net comprehensive loss for the period was \$1.519 million. This is a substantial difference from last year (2012: loss \$3.942 million).

Revenue from ordinary activities from continuing operations for the period increased by 64% to \$0.461 million (2012: \$0.280 million). Revenue from ordinary activities from continuing and discontinuing operations for the period decreased by 33% to \$1.335 million (2012: \$1.995 million). The decrease is primarily due to lower Mill sales following a fire in February 2013, after which it was decided to suspend mill operations indefinitely.

Overall costs from continuing operations for the period increased by \$0.49 million to \$2.801 million (2012: \$2.311 million) and mostly comprises of the increased costs of sales for timber sales from \$0.308m in 2012 to \$0.895m in 2013. The tax benefit decreased from \$0.603 million in 2012 to \$0.272 in 2013. The loss from discontinued operation fell by \$2.122 million from \$2.974 million in 2012 to \$0.852 million in 2013 as a result of lower impairment allowance for outstanding grower loans.

Directors' Report

Operating and financial review (continued)

The cash flow from continued operations for the year amounts to \$1.714 million outflow (2012: \$1.501 million outflow). The cash outflow includes Head Office costs that have been significantly reduced as a result of the Group strategic restructure. The primary changes are:

- The number of employees has reduced from 10 to 5 including 3 directors. The staff costs are expected to reduce by \$500,000.
- The directors are being paid by shares in lieu of cash, as approved by the shareholders at the 28 June 2013 EGM;
- There are no property lease costs, in the current year these costs amounted to \$291,000.
- The Perth Office was closed reducing operating lease costs by \$65,000 per annum.

Corporate Operations

During the year the company raised \$1.446 million from the issue of 498,235,155 shares. In addition, 17,452,967 shares were issue in lieu of fees and remunerating totalling \$0.106 million.

On the 28 June 2013, the Company held an Extraordinary General Meeting ("EGM") at which shareholders resolved to approve:

- Changing the Company name to Kangaroo Island Plantation Timbers Ltd;
- The Consolidation of shares on a 1 for 500 basis. On the 2 July 2013, the shares were consolidated from 581,819,476 shares to 1,163,711 shares;
- The issue of shares to directors in lieu of wages, as a result \$72,917 of fees were paid with 16,152,918 pre-consolidation shares on 28 June 2013; and
- The issue of shares to former growers.

All shares, and all references to shares, disclosed in this report are based on pre-consolidated holdings, unless shown as post consolidated shares.

On 2 February 2013 John Sergeant was appointed as a Non-Executive Director. In addition, Ian Olson resigned as a Non-Executive Director on 26 February 2013.

In June 2013, Kangaroo Island Plantation Timbers and its subsidiaries moved its registered office and had office from Perth to Adelaide.

Performance indicators

| | 2013 \$'000 | 2012 \$'000 | % Change from the previous period |
|--|----------------|----------------|--------------------------------------|
| Revenue from ordinary activities from continuing operations | 461 | 280 | Increase 64% |
| Revenue from ordinary activities from continuing and discontinued operations | 1,335 | 1,995 | Decrease 33% |
| Profit/(loss) from ordinary activities | (2,154) | (3,942) | Loss decrease 45% |
| Profit/(loss) attributable to members for the period | (2,154) | (3,942) | Loss decrease 45% |
| Loss from discontinued operations | (852) | (2,974) | Loss decrease 72% |
| Total comprehensive income/(loss) after tax | (1,519) | (3,942) | Loss decrease 61% |
| Net tangible asset backing per security | 2.4 cents | 20.2 cents | Decrease 88% |

Directors' Report

Significant changes in the state of affairs

The strategic changes effecting 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.

Significant events after balance date

On the 28 June 2013, the Company held an Extraordinary General Meeting ("EGM") at which shareholders resolved to approve the following:

- Changing the Company name to Kangaroo Island Plantation Timbers Ltd;
- The Consolidation of shares on a 1 for 500 basis. On the 2 July 2013, the shares were consolidated from 581,819,476 shares to 1,163,711 shares;
- The issue of shares to directors in lieu of wages, as a result \$72,917 of fees were paid with 16,152,918 pre-consolidation shares on 28 June 2013; and
- The issue of share to formers Growers of up to 13,333,333 (post consolidation 266,667) shares, at the date of this report the prospectus was released on 13 September 2013 and the shares have not been issued.

Since 30 June 2013, the Company has been invited to respond to RevenueSA regarding the suggested valuation of its recent land acquisition for the purposes of levying stamp duty and has made an announcement to the ASX.

Four of the five Managed Investment Schemes have been deregister since the year end; Scheme 2 is in the process of being deregistered.

The Company held a further EGM on 28 August 2013 and obtained shareholder approval to change auditors, at which Ernst & Young were replaced as auditors by Grant Thornton Audit Pty Ltd.

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.

Further work will be done to explore income opportunities by the possible opening of other areas of the mill and other export opportunities of timber off Kangaroo Island.

All of these activities are expected to have a positive impact on the financial results of the Group.

Directors' Report

Diversity Report

Introduction

The following is the Diversity Report for the financial year ended 30 June 2013 for Kangaroo Island Plantation Timbers Ltd ("the Company") prepared for the purposes of the Company's Annual Report for the year ended 30 June 2013.

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.

Diversity Policy

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 on pages 20 to 31 of this Annual Report and 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 2013 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 the Chief Executive Officer and the Chief Financial Officer), 1 is of different ethnic or cultural background, and nil are mature age. There are no female directors. Consequently it could be said that the Company is already aware of the value of diversity and practices its attributes. A number of diversity objectives were not implemented by the Group at this stage given its size and low staff numbers, there 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:

Directors' Report

Diversity Report (continued)

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 |
| 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.
- 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."

Directors' Report

Diversity Report (continued)

Board Skills

The Board shall contain a relevant blend of expertise and diversity attributes 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.

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. To the best of the director's knowledge, the group has complied with all environmental regulations relating to its activities during the year.

Directors' Report

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 |
|---|--|--|
| Paul McKenzie | 13 | 13 |
| Frederick Woollard | 13 | 13 |
| John Sergeant (appointed 2 February 2013) | 7 | 7 |
| Ian Olson (resigned 26 February 2013) | 6 | 6 |

| | Audit & Compliance Meetings | Remuneration Meetings |
|---|--|----------------------------------|
| Number of meetings held: | 1 | 1 |
| Number of meetings attended | | |
| Paul McKenzie | 1 | 1 |
| Frederick Woollard | 1 | 1 |
| John Sergeant (appointed 2 February 2013) | n/a | n/a |
| Ian Olson (resigned 26 February 2013) | 1 | 1 |

Committee membership

As at the date of this report, the company had an Audit and Compliance Committee and a Remuneration Committee of the Board of Directors. All directors act on both of these committees.

No meeting were held between John Sergeant's appointment and 30 June 2013.

Directors' Report

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 98/0100. The company is an entity to which the Class Order applies.

Auditor independence and non-audit services

The directors have received the auditors' independence declaration, which is included on page 19 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

Ernst & Young were replaced as auditors on 28 August 2013 by Grant Thornton Audit Pty Ltd.

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 Compliance 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 Compliance 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 Auditors Pty Ltd (2012: Ernst & Young) for:

| | Consolidated | |
|--|---------------------|-----------|
| | 2013 | 2012 |
| | \$ | \$ |
| An audit or review of the financial report of the entity and any other entity in the consolidated entity | | |
| Grant Thornton | 23,000 | - |
| Ernst & Young | 20,600 | 82,660 |
| Taxation services Grant Thornton | 21,150 | 4,275 |
| | 64,750 | 86,935 |

Directors' Report

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 Chief Executive Officer and Chief Financial Officer of the Parent and the Group.

Shareholders AGM votes on Remuneration Report

Kangaroo Island Plantation Timbers Ltd received 100% of 'yes' votes on its Remuneration Report for the financial year ending 30 June 2012. The company receives no specific feedback on its Remuneration Report at the Annual General Meeting.

Key management personnel

Key management personnel are as follows:

Directors

| | |
|---|-----------------------------------|
| Paul McKenzie (appointed 29 April 2005) | Chairman - Non-executive Director |
| John Sergeant (appointed 2 February 2013) | Non-executive Director |
| Fred Woollard (appointed 11 March 2008) | Non-executive Director |
| Ian Olson (resigned 26 February 2013) | Non-executive Director |

Executives

| | |
|---|--|
| John Ipsen (resigned 8 June 2013) | Chief Executive Officer |
| Victoria Allinson (appointed 14 May 2013) | Company Secretary, Chief Financial Officer |
| Scott Wallace (resigned 15 April 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

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

The Remuneration Committee 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 committee 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.

Directors' Report

Remuneration report (audited) (continued)

The following table shows the EPS and share price of the Group for the past 6 years:

| | Net tangible assets | Earnings per share | Share price at 30 June |
|------|---------------------|--------------------|------------------------|
| 2013 | \$0.02 | (\$0.002) | \$0.004 |
| 2012 | \$0.21 | (\$0.062) | \$0.06 |
| 2011 | \$0.31 | (\$0.028) | \$0.16 |
| 2010 | \$0.31 | (\$0.014) | \$0.12 |
| 2009 | \$0.30 | (\$0.051) | \$0.14 |
| 2008 | \$0.35 | (\$0.0073) | \$0.18 |

Remuneration is reviewed on an annual basis, taking into consideration both qualitative and quantitative performance indicators, with reference to industry benchmarks. A review has been conducted in the period of this annual report.

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.

Remuneration is recommended by the Remuneration Committee to the Board 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.

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 \$250,000 pa.

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. Fred Woollard is paid on a PAYG basis and accordingly, superannuation payments are made on his behalf to his nominated superannuation fund.

The non-executive directors do not receive retirement benefits, nor do they participate in any incentive programs.

Directors' Report

Remuneration report (audited) (continued)

Details of the nature and amount of remuneration of each non-executive director of the company and the consolidated entity for the financial year are as follows:

| Year | Short term | | Bonus \$ | Post employment | Short term | |
|------------------------------|------------------------|-------------------------|---------------|--------------------|--------------|------------------------|
| | Salary & Fees \$ | Paid in shares \$ | | Super \$ | | Salary & Fees \$ |
| Paul McKenzie ⁽¹⁾ | 2013 | 29,688 | 28,409 | - | - | 58,097 |
| | 2012 | 75,000 | - | - | - | 75,000 |
| Fred Woollard ⁽²⁾ | 2013 | 26,585 | 18,939 | - | 2,752 | 48,276 |
| | 2012 | 45,872 | - | - | 4,128 | 50,000 |
| John Sergeant ⁽³⁾ | 2013 | - | 16,667 | - | - | 16,667 |
| | 2012 | - | - | - | - | - |
| Ian Olson ^{(4) (5)} | 2013 | 23,958 | 7,788 | - | - | 31,746 |
| | 2012 | 50,000 | 6,000 | - | - | 56,000 |
| Total | 2013 | 80,231 | 71,803 | - | 2,752 | 154,786 |
| | 2012 | 170,872 | 6,000 | - | 4,128 | 181,000 |

During the year the following remuneration paid in shares:

- (1) On 28 June 2013 6,944,444 ordinary shares were issued in lieu of \$31,250 (\$28,409 net of GST) Directors Fees, to Aminac Pty Ltd ATF Agrarian Management S/F A/C of which Paul McKenzie is the Managing Director.
- (2) On 28 June 2013 4,629,630 ordinary shares were issued in lieu of \$20,833 (\$18,939 net of GST) 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) On 28 June 2013 3,652,968 ordinary shares were issued in lieu of \$16,667 Directors Fees. John Sergeant was appointed a director on 2 February 2013.
- (4) On 28 June 2013 925,926 ordinary shares were issued in lieu of \$4,167 (\$3,788 net of GST) Directors Fees. Ian Olson resigned as a director on 26 February 2013.
- (5) During the prior year 100,000 shares were granted on 30 June 2012 to Ian Olson. These shares were not issued until 24 July 2012. At 30 June 2012 the shares were valued at \$0.06, however the value was increased to \$0.10 on issue resulting in \$6,000 being charged in 2012 and \$4,000 in 2013.

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

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.

Directors' Report

Remuneration report (audited) (continued)

Structure

The Company has reviewed its staffing requirements as part of the strategic restructure, as a result the Company only has two employees at the date of this report. The two employees are based on Kangaroo Island. The Company's Chief Financial Officer ("CFO") Victoria Allinson and Chief Executive Officer ("CEO") Jessica Domschenz both 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 is engaged to provide the services of Jessica Domschenz.

Until the current year executives were employed under normal statutory contractual employment terms. Termination payments are paid as per statutory termination arrangements. 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.

The following people are executives of the company and the consolidated entity receiving the highest remuneration for the financial year:

| Year | Short term (a) | | Post employment | Long term | Share-based payment | | Total |
|----------------------------------|----------------|---------------------------|-----------------------------|--------------------|----------------------|---------|---------|
| | Salary & fees | Cash bonus ⁽¹⁾ | Other non-monetary benefits | Long service leave | Executive share plan | Shares | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| John Ipsen ⁽¹⁾ | | | | | | | |
| 2013 | 218,151 | - | 4,707 | 18,345 | - | - | 245,203 |
| 2012 | 214,991 | 5,000 | 5,196 | 19,112 | - | 170,333 | 420,632 |
| Jessica Domschenz ⁽²⁾ | | | | | | | |
| 2013 | 6,200 | - | - | - | - | - | 6,200 |
| 2012 | - | - | - | - | - | - | - |
| Scott Wallace ⁽¹⁾ | | | | | | | |
| 2013 | 151,527 | - | 4,707 | 14,298 | 599 | - | 175,131 |
| 2012 | 160,701 | 5,000 | 4,956 | 14,298 | 1,900 | 34,067 | 226,922 |
| Graham Seppelt ⁽³⁾ | | | | | | | |
| 2013 | 7,789 | - | - | - | - | - | 7,789 |
| 2012 | - | - | - | - | - | - | - |
| Victoria Allinson ⁽⁴⁾ | | | | | | | |
| 2013 | 6,152 | - | - | - | - | - | 7,152 |
| 2012 | - | - | - | - | - | - | - |
| Total | | | | | | | |
| 2013 | 389,819 | - | 9,414 | 32,643 | 599 | - | 441,475 |
| 2012 | 375,692 | 10,000 | 10,152 | 33,410 | 1,900 | 204,400 | 647,554 |

- (1) During the prior year cash bonus and 100,000 shares each (value \$10,000) were granted on 30 June 2012 to John Ipsen and Scott Wallace. These shares were not issued until 24 July 2012. At 30 June 2012 the shares were valued at \$0.06, however the value was increased to \$0.10 on issue resulting in \$6,000 each being charged in 2012 and \$4,000 each in 2013. John Ipsen and Scott Wallace resigned on 8 June 2013 and 15 April 2013 respectively.

Directors' Report

Remuneration report (audited) (continued)

- (2) Jessica Domschenz has provides professional forester services since May 2013 and was appointed as CEO on 12 July 2013. During the year \$6,200 of processional services were invoices by Forestech Management Pty Ltd, of which Jessica Domschenz is an employee. Jessica was appointed an executive during the current year, therefore in the prior year and her remuneration was includes in wages and salaries.
- (3) Graham Seppelt was appointed as Company Secretary on 15 April 2013 and resigned on 14 June 2013.
- (4) Victoria Allinson was appointed as CFO and Company Secretary on 14 May 2013. During the year the professional accounting and company secretarial fees of \$7,867 (including GST) were invoiced by Allinson Accounting Solutions Pty Ltd, of which Victoria Allinson is Managing Director and shareholder. During the year, \$1,000 of invoiced fees were paid in shares, the remaining \$6,867 were payable at 30 June 2013.

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

Share options

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

End of Remuneration Report

Signed in accordance with a resolution of the directors



Paul McKenzie
Chairman

Dated this 30th day of September 2013

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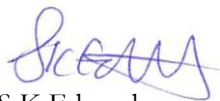
**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF KANGAROO ISLAND PLANTATION TIMBERS
LIMITED**

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 2013, 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
Director – Audit & Assurance

Adelaide, 30 September 2013

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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.

The Board has used its best endeavours to follow the Principles and Recommendations set out by the Australian Securities Exchange’s (“ASX”) Corporate Governance Council.

The ASX Corporate Governance Council released revised Corporate Governance Principles and Best Practice Recommendations on 2 August 2007 and further amendments have been released since that date. This Statement complies with those revised principles except where noted.

Kangaroo Island Plantation Timbers Ltd’s corporate governance practices were in place throughout the year ended 30 June 2013, except where noted; having considered the Company’s size and nature it is considered that it complies as far as possible with the spirit and intentions of the ASX Corporate Governance Council’s Principles and Recommendation unless otherwise stated in the Statement.

All corporate governance documents noted in this Statement are available on the Company’s website www.kipt.com.au

This Statement summarises the Company’s primary corporate governance practices and its compliance with the ASX Corporate Governance Council’s Principles and Recommendation as appropriate.

CHARTER FOR THE BOARD OF DIRECTORS

An important and basic corporate governance policy is the Charter for the Board of Directors, which is regularly reviewed. The Charter is a composite document which deals with all of the ASX principles of good corporate governance and is available on the Company’s website.

The Charter, as supported by the Directors’ Code of Conduct detailed at Principle 3, sets out the following requirements:

- The role of the Board;
- The Board structure;
- The skills required on the Board; and
- The Directors’ general roles.

The relevant references in the Charter are noted under each of the principles listed below.

ASX CORPORATE GOVERNANCE PRINCIPLES

The following is a summary of the 8 Corporate Governance Principles, including comments where applicable on the Recommendations, and extracts from the policies adopted by the Company which demonstrate how compliance has been achieved.

Corporate Governance Statement

PRINCIPLE 1: Lay solid foundations for management and oversight

Board Function

The Board is responsible for the overall corporate governance of the Group including its strategic direction, establishing goals and responsibilities for management and monitoring the achievement of these goals.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of directors and for the operation of the Board. To assist in the execution of its responsibilities, the Board has established an Audit and Compliance Committee and a Remuneration Committee. Due to the size of the Group, the two committee's members currently include all non-executive directors, this will be reviewed when the number of board members increases.

The responsibility for the operation and administration of the company is delegated, by the Board, to the CEO and executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the executive management team, which was undertaken in the last reporting period.

Whilst there is ongoing interaction between the Board and Management, the Board functions independently of management to establish the policy framework of the Company from which management works to perform the daily functions of the business

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risk identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

The Board's Responsibilities

The primary responsibilities of the Board include:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity
- Working with management to develop strategic and business plans to achieve those strategic plans; and
- Implementation of budgets by management and monitoring progress against budget – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

- Setting the criteria for Board membership, continuity and reviewing the composition of the Board;
- Conducting an annual review of the Board Charter.
- Establishing the long term goals of the Group, and working with management to develop strategic and business plans to achieve those goals;
- Monitoring implementation of the Group's strategic and business plans and its financial performance;
- Appointing, and assessing the performance of, the senior management team, ensuring a clear relationship between performance and remuneration;
- Approving major corporate initiatives;
- Enhancing and protecting the reputation of the organisation;
- Reporting to shareholders and the market; and

Corporate Governance Statement

PRINCIPLE 1: Lay solid foundations for management and oversight (continued)

- Approval of the annual and interim financial reports;
- Approving and monitoring the progress of capital management, acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored;
- Reporting to shareholders;
- Establishing and monitoring the company's capital management strategy, including any dividend payments;
- Assessing the company's funding requirements; and
- Monitoring borrowings from financial institutions.

At all times the Board retains full responsibility for guiding and monitoring the company. Due to the size of the Board and Company, apart from an Audit Committee and Remuneration Committee, there are no other separate committees of the Board, the Board maintaining full responsibility on matters of finance and treasury with assistance from the CEO and CFO.

Board Meetings

The Board holds 10 to 12 formal meetings a year. Additional meetings are held as required. A meeting is held each year to review and approve the strategy and financial plan for the next financial year. The Board also meets with Executive Management to consider matters of strategic importance to the Group.

Senior Management Team's Responsibilities

Due to the Groups size and nature there is no Executive Director. The CEO and CFO ("senior management team") are responsible for running the affairs of the Company under delegated authority from the Board and for implementing the policies and strategy set by the Board. In carrying out their responsibilities the CFO and CEO must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial position and operational results. Clear lines of communication between the Chair and the CEO and CFO are established and both consults with the Chair, in the first place, on matters which are sensitive, extraordinary or of a strategic nature.

The role of the senior management team is to implement the running of the general operations and financial business of the Group, in accordance with the delegated authority of the Board. The CFO and CEO are responsible for the implementation of the Group's strategic and business plans, they are not involved in the setting of the Group's strategic and business plans. The Audit and Compliance Committee have delegated certain financial risk management duties to Frederick Woollard. The Board are of the opinion that these duties do not effect Fred's non-executive status as a director of the Company.

Performance of Key Executives

The performance of the Company's most senior executives has been assessed this year in accordance with the process adopted by the Board.

Corporate Governance Statement

PRINCIPLE 2: Structure the Board to add value

Composition and membership

The Board comprises two independent non-executive directors, being Paul McKenzie, and John Sergeant and one non-executive directors Fred Woollard. See the directors' report for details of their experience and qualifications.

Directors are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement; and are not a substantial shareholder of 5% or more in the Company.

The full Board is responsible for establishing criteria for Board membership, reviewing Board membership and identifying and nominating directors. Board membership is reviewed annually to ensure the Board has an appropriate mix of qualifications, skills and experience. External advisors may be used to assist in this process.

The terms and conditions of appointment and retirement of non-executive directors are set out in a letter of appointment that includes the recommendation outlined in Principle 1. The company has also developed a company pack and induction program suitable for new directors and senior management.

In view of the size of the parent entity, the directors have considered that establishing a remuneration committee for new Board members would contribute little to its effective management and accordingly all directors participate in decisions regarding the nomination and election of new Board members. In addition, as a result of the Board size director performance reviews are in the form of informal self-review and discussion with the other directors.

Officers and executives were until June 2013 were given the opportunity to receive their emoluments in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the consolidated entity. Since June 2013, the Directors' remuneration is paid in shares in lieu of cash and all the CFO and CEO are primarily paid cash. See the Remuneration Report in the attached Directors' Report for details of remuneration policies.

The overall objective is to ensure maximum shareholder benefit from the retention of a quality Board and Senior Management Team.

Independent professional advice

In fulfilling their duties, the Directors may obtain independent professional advice at the company's expense.

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.

Corporate Governance Statement

PRINCIPLE 3: Promote ethical and responsible decision-making

Ethical standards

The Board acknowledges the importance of ethical behaviour from the company's directors, management and employees. The Board's policy is for the directors, management and employees to conduct themselves with the highest ethical standards and the best practices of corporate governance.

Code of Conduct

In September 2013, Board adopted a revised Director's Code of Conduct. The new code provides more guidance on the standards of ethical behaviours required of directors. The code is available on the Company's website.

Kangaroo Island Plantation Timbers Ltd aims to deliver superior long-term total shareholder return, taking proper account of employees, customers and others with whom we do business as well as the communities and environments in which Kangaroo Island Plantation Timbers Ltd operates. In striving to achieve these aims, we should not compromise our ethics or principles. Kangaroo Island Plantation Timbers Ltd places great importance on honesty, integrity, quality and trust.

This Code of Conduct sets ethical standards for the Non-Executive Directors of Kangaroo Island Plantation Timbers Ltd Limited. Kangaroo Island Plantation Timbers Ltd has an Employee Code of Conduct and a Conduct and Ethics Policy Framework (made up of company policies and procedures) which further support these standards. Non-Executive Directors will pursue the highest standards of ethical conduct in carrying out their duties and responsibilities.

A Code of Conduct sets standard to ensure directors:

- act in Group's best interest and value Groups reputation;
- act with honesty and integrity;
- treat others with respect and value differences;
- respect and maintain privacy and confidentiality;
- identify conflicts of interest and manage them responsibly; and
- do not make or review improper payments, benefits or gains.

Diversity Policy

The Diversity Policy adopted by the Board is as follows:

1. General Purposes and Principles

- (a) The Group respects and values the competitive advantage of "Diversity", and the benefits of its integration throughout the Group, 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 ('Principle').

Corporate Governance Statement

PRINCIPLE 3: Promote ethical and responsible decision-making (continued)

- (b) This Principle will manifest itself in the following areas:
 - (i) strategic and operational:
 - (A) being attuned to diverse strategies to deliver the Group's objectives;
 - (B) being attuned to diverse corporate, business and market opportunities; and
 - (C) being attuned to diverse tactics and means to achieve those strategies in (A) and to take advantage of those opportunities in (B).
 - (ii) management:
 - (A) adding to, nurturing and developing the collective relevant skills, and diverse experience and attributes of personnel within the Group;
 - (B) ensuring the Group's culture and management systems are aligned with and promote the attainment of the Principle, including having regard for domestic responsibilities.

Note: in the context of this paragraph 1(b)(ii) "Diversity" constitutes people at relevant levels within the Group (including board, senior executive, management and otherwise) with a diverse blend of skills, experiences, perspectives, styles and attributes gained from life's journey, including on account of their culture, gender, age or otherwise.

- (c) The Group will develop strategies, initiatives and programs to promote the Principle, including the achievement of gender diversity with respect to the matters referred to in paragraph 1(b)(ii).
- (d) In particular, the Group will set measurable objectives, and targets or key performance indicators (KPIs), for the strategies, initiatives and programs to achieve gender diversity with respect to the matters referred to in paragraph 1(b)(ii).
- (e) The Group will implement the strategies, initiatives, programs and measurable objectives referred to in (c) and (d).
- (f) Management will monitor, review and report to the Board (including via the Remuneration Committee) on the achievement of gender diversity with respect to the matters referred to in paragraph 1(b)(ii), and the Group's progress under this policy.

2. Responsibility for the Policy

- (a) Although the Board retains ultimate accountability for this Policy, the Board has delegated responsibility for Policy implementation to the CEO.
- (b) In turn the CEO has delegated to the Group Secretary responsibility for administration of this Policy, including its reporting to the Board, or its relevant sub-committee, as appropriate.

3. Measurable Objectives, targets and Key Performance Indicators (KPIs) - Gender Diversity

With respect to gender diversity, management will:

- (a) develop, for approval by the Board or its relevant sub-committee, as appropriate:
 - (i) measurable objectives concerning the strategies, initiatives and programs referred to in paragraph 1(c);
 - (ii) targets or KPIs to verify progress towards attainment of those measurable objectives.
- (b) measure performance against those targets and KPIs;
- (c) report from time to time on the progress of the matters referred to in (a) and (b).

Corporate Governance Statement

PRINCIPLE 3: Promote ethical and responsible decision-making (continued)

4. Compliance Requirements

- (a) The Group will meet its obligations with respect to the issue of "Diversity", as may be required under the ASX Corporate Governance Principles and Recommendations (2nd Edition) ("ASX Principles") and other regulatory requirements (if any) including by:
- (i) establishing this Policy as a compliant policy under ASX Guideline 3.2(a) by:
 - (A) establishing measurable objectives for achieving gender diversity;
 - (B) the Board assessing annually the measurable objectives for achieving gender diversity and the progress in achieving them.
 - (ii) disclosing this policy or a summary of it under ASX Guideline 3.2 (b)
 - (iii) in its annual report, and in the terms of ASX Guideline 2.4, disclosing the processes the Board adopts and the criteria the Board takes into consideration in its selection of prospective new Board members;
 - (iv) in its annual report, and in the terms of ASX Principles 3.3 and 3.4, disclosing:
 - (A) the measurable objectives for achieving gender diversity set by the Board in the terms of this Policy;
 - (B) the progress from time to time towards achieving them;
 - (C) the proportions in the Group (relative to their male counterparts) of:
 - female employees;
 - females in senior executive positions;
 - females on the Board
 - (v) incorporating in the corporate governance statement in the Group's annual report a statement as to the mix of skills and diversity that the Board is looking to achieve in membership of the Board, in the terms of ASX Guideline 2.6.
- (b) The Company Secretary will assume line responsibility to ensure the Group meets its compliance and reporting obligations referred to in (a), including by collecting and collating all relevant data and ensuring that management processes and systems are adequate and effective for such reporting obligations to be met.

5. Communication

The Group commits to the communication of this policy within the Group, to its shareholders and the market, including via its website:

- (i) by way of transparency and accountability; and
- (ii) to better promote the prospects of attainment of the Principle.

6. Accountability

- (a) Reporting and accountability in the terms of this Policy will be a periodic item on the Board agenda.
- (b) At least annually the Remuneration Committee will report to the Board on progress towards attainment of the Principle with respect to the matters referred to in paragraph 1(b)(ii), and otherwise to facilitate the Board in meeting its Compliance requirements under paragraph 4.

Corporate Governance Statement

PRINCIPLE 3: Promote ethical and responsible decision-making (continued)

7. Addenda to this Policy

The following shall constitute addenda to this Policy as if set out in this Policy:

- (a) approved strategies, initiatives and programs and measurable objectives, targets and KPIs referred to in paragraph 1(c); and
- (b) approved measurable objectives, targets and KPIs referred to in paragraph 1(d); as may apply from time to time.

8. Overriding Caveat

Nothing in this policy shall be taken, interpreted or construed so as to endorse:

- (a) the principle criteria for selection and promotion of people to work within the Group, other than their overall relative prospect of adding value to the Group and enhancing the probability of achievement of the Group's objectives;
- (b) any discriminatory behaviour by or within the Group contrary to the law, or any applicable codes of conduct or behaviour for the Group or its personnel;
- (c) any existing person within the Group in any way feeling threatened or prejudiced by this policy in their career development or otherwise, merely because of their Diversity attributes at any time may be more, rather than less, common than others.

Diversity Strategy

The Diversity Strategy lists the strategies, initiatives and programs, measurable objectives, targets and KPIs adopted by the Board. Most of the strategies, initiatives and programs have already been achieved or put in place, and the necessary amendments have been made to the Charter for the Board of Directors and to the Terms of Reference for the Remuneration Committee. The amended documents may be viewed on the Company's web site.

The Strategy includes initiatives and programs designed to foster Diversity at Board level, at executive and management level and generally, commensurate with the nature and size of the Group. Progress with achievement of the Diversity Strategy will be reviewed by the Remuneration Committee (if formed, otherwise by the Board) on an annual basis and the result reported to the Board. Progress will also be reported each year in the Directors' Report section of the Annual Report.

Trading Policy

The long-term holding of the Company's securities by designated persons is encouraged however, under the Company's Securities Trading Policy, a designated person must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Corporate Governance Statement

PRINCIPLE 3: Promote ethical and responsible decision-making (continued)

Also, they must not give such information to any other person who is likely to:

- use this information with which to trade in the company's securities; and/or
- pass this information on to another person who may use this information with which to trade in the Company's securities.

Before commencing to trade in the Company's securities:

- A director must first obtain the written approval of the Chairman; and
- An executive must first obtain the written approval of the Company Secretary.

In the instance that the Chairman wishes to trade in the Company's securities, he/she must obtain the written approval of all other members of the board.

Closed Period

Designated persons are prohibited from trading in the Company's securities during the following periods:

- From 1 July to one day after the release of the Company's final results;
- From 1 January to one day after the release of the Company's half-year results; and
- Any other periods as may be determined by the Board and communicated to designated persons.

Exemptions

Only in exceptional circumstances will approval for the disposal of the Company's securities during this closed period be forthcoming. Examples of such circumstances are:

- Where severe financial difficulty or hardship can be demonstrated.
- By Order of a Court of Australia.

At no time will approval for the purchase of the Company's securities be granted to designated employees during the closed period.

Notification of Dealings by Directors

As required by the ASX Listing Rules, the Company is required to report any transaction conducted by Directors in the securities of the Company to the ASX within 5 business days after the date of the transaction.

Directors are required to report these transactions to the Company Secretary the day following the transaction so the appropriate disclosure can be made and to ensure the Company's compliance with the ASX listing rules.

Corporate Governance Statement

PRINCIPLE 4: Safeguard integrity in financial reporting

Financial Reports

The CFO ensures that the Company's financial reports are prepared in accordance with relevant accounting standards and that monthly financial reports are distributed to the Board. The annual and interim financial reports, and any other financial reports for release to the market, are presented for review by the Audit and Compliance Committee prior to their adoption by the Board.

All annual and interim financial reports presented to the Board have been reviewed by the CEO and CFO who confirm in writing to the Board that the relevant report represents a true and fair view of the Company's financial position in all material respects and is in order for adoption by the Board.

Audit and Compliance Committee

The Board has established an Audit and Compliance committee, which comprises all non-executive directors and operates under a charter approved by the Board. Therefore, ultimately it is the Board's responsibility to ensure that an effective internal control framework exists within the entity and for establishing and maintaining this framework of internal control and ethical standards of the Group.

From time to time the company's senior management team and the company's auditors, may be invited to attend meetings of the committee.

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

| | Number of meetings attended | Number of meetings held during the year |
|---|-----------------------------|---|
| John Sergeant (Chairman) ^{(1) (3)} | n/a | n/a |
| Ian Olson ^{(2) (3)} | 1 | 1 |
| Paul McKenzie ⁽³⁾ | 1 | 1 |
| Frederick Woollard | 1 | 1 |

⁽¹⁾ John Sergeant was appointed Chairman of the Committee on 2 March 2013. No meeting were held from the date of his appointment to 30 June 2013. He has attended 2 meeting since the 30 June 2013

⁽²⁾ Ian Olson resigned as a member and Chairman of the Committee on 26 February 2013.

⁽³⁾ Independent Directors

The responsibilities of the Audit and Compliance committee are contained within its charter and include:

- Assessment and monitoring of internal control adequacy.
- Monitoring the activities and effectiveness of the internal audit function.
- Overseeing and monitoring integrity of financial reporting.
- Review draft annual and interim financial statements with management and external auditors and make recommendations to the full board.
- Review and monitor the company's compliance with laws and ASX Listing Rules.
- Review performance against the company's Code of Conduct.
- Report regularly to the Board on its activities and findings.
- Other responsibilities as required by the Board or considered appropriate.

CEO and CFO Certification

The Chief Executive Officer and Chief Financial Officer have provided a written statement to the Board that:

- Their view provided on the company's financial report is founded on a system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- The company's risk management and internal compliance and control system is operating effectively in all material respects

Corporate Governance Statement

PRINCIPLE 5: Make timely and balanced disclosure

Kangaroo Island Plantation Timbers Ltd is an ASX listed company, and as such is a disclosing entity under the Corporation Act 2001. Under the Corporation Act 2001 and ASX Listing Rules the Board has a number of disclosure obligations. The Board adopted a new Disclosure Policy in September 2013 to ensure that all disclosure obligations are met.

Disclosure Policy

Kangaroo Island Plantation Timbers Ltd is committed to ensuring that our shareholders and the market are provided with full and timely information about us.

This Policy provides a framework of principles which empower our people to make decisions on behalf of Kangaroo Island Plantation Timbers Ltd. The Disclosure Policy is available on the Company website.

Policy Objectives

1. To establish a vetting and authorisation process designed to ensure that Company announcements:
 - are made in a timely manner;
 - are factual;
 - do not omit material information; and
 - are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.
2. To establish a process to promote understanding of compliance within the Company.
3. To safeguard the confidentiality of corporate information to avoid premature disclosure.

In respect to Periodic Disclosure, the Listing Rules and guidelines require that the Board will ensure that the Security Holders and the market are periodically provided with all information necessary to assess the performance of the Company and the Directors. Information to allow investors to monitor the performance of the Company is communicated by means of:

- the Annual Report which is available for distribution to all Shareholders;
- the Interim Report which is available for distribution to all Shareholders;
- periodic reports and special reports when matters of material interest arise; the Annual General Meeting and other meetings called to obtain approval of any Board action as required; and
- The Company's website.

PRINCIPLE 6: Respect the rights of Shareholders

Shareholder Communication Policy

This Policy aims to ensure that effective communication between Kangaroo Island Plantation Timbers Ltd (the "Company") and its security holders (the "shareholders") is maintained, and ready, equal and timely access to clear and balanced information about the Company (including its financial performance, strategic plans, material developments, governance and risk profile) is available to the shareholders to enable them to exercise their rights in an informed manner.

The board of directors of the Company (the "Board") is responsible for maintaining an on-going dialogue with, and promoting effective and timely dissemination of information, to the shareholders and the investing public. This Policy will be regularly reviewed to ensure its effectiveness

General Meetings

The Company holds its AGM each year. Shareholders are encouraged to participate in general meetings. Shareholders who are unable to attend a General Meeting in person are encouraged to vote on the proposed motions by appointing a proxy.

Corporate Governance Statement

PRINCIPLE 7: Recognise and manage risk

Risk

The Board determines the company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The company's process of risk management and internal compliance and control includes:

- Establishing the company's goals and objectives, and implementing and monitoring strategies and policies to achieve these goals and objectives;
- Continuously identifying and measuring risks that might impact upon the achievement of the company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- Formulating risk management strategies to manage identified risks and designing and implementing appropriate risk management policies and internal controls;
- Monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and control, including an annual assessment of the effectiveness of risk management and internal compliance and control.

To this end, comprehensive practices are in place that are directed towards achieving the following objectives:

- Effectiveness and efficiency in the use of the company's resources;
- Compliance with applicable laws and regulations;
- Preparation of reliable published financial information.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management.

PRINCIPLE 8: Remunerate fairly and responsibly

Remuneration

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive Team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of high quality management to the company; and
- Performance incentives that allow executives to share in the success of Kangaroo Island Plantation Timbers Ltd.

For a full discussion of the company's remuneration philosophy and framework, details of the remuneration committee and the remuneration received by directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits to non-executive directors.

Financial Report – Contents

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2013

| | | Consolidated | |
|-------|---|---------------------|---------------------|
| | | 2013 | 2012 |
| Notes | | \$'000 | \$'000 |
| | Lease and management fees | 22 | 22 |
| | Timber sales | 395 | 187 |
| | Rent | 5 | 6 |
| | Bank interest | 39 | 65 |
| | Revenue | 461 | 280 |
| | Cost of sales | (895) | (308) |
| | Gross profit | (434) | (28) |
| | Other income | 766 | 460 |
| | Forestry expenses | (73) | (43) |
| | Administrative expenses | (931) | (1,075) |
| | Occupancy expenses | (98) | (132) |
| | Other expenses | (791) | (737) |
| | Finance costs | (13) | (16) |
| | Profit/(loss) before income tax | (1,574) | (1,571) |
| | Income tax benefit/(expense) | 272 | 603 |
| | Net profit/(loss) for the year from continuing operations | (1,302) | (968) |
| | Discontinuing operations | | |
| | Profit/(loss) from discontinuing operations | (852) | (2,974) |
| | Profit/(loss) for the year attributable to members of the parent | (2,154) | (3,942) |
| | Other comprehensive income | | |
| | Items that will not be reclassified subsequently to profit or loss | | |
| | Net fair value gain in property, plant and equipment | 635 | - |
| | Other comprehensive income for the year net of tax | 635 | - |
| | Total comprehensive income/(loss) for the year attributable to members of the parent | (1,519) | (3,942) |
| | Pre-share consolidation | EPS in cents | EPS in cents |
| | Basic profit/(loss) per share from continuing and discontinued operations | (1.92) | (6.26) |
| | Basic profit/(loss) per share from continuing operations | (1.16) | (1.54) |
| | Post-share consolidation | EPS in cents | EPS in cents |
| | Basic profit/(loss) per share from continuing and discontinued operations | (959) | (3,137) |
| | Basic profit/(loss) per share from continuing operations | (580) | (770) |

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 2013

| | | Consolidated | |
|--------------------------------------|----------------|----------------|---------------|
| Notes | 2013 \$'000 | 2012 \$'000 | |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 405 | 1,227 |
| Trade and other receivables | 10 | 74 | 1,715 |
| Term deposits | | 65 | 65 |
| Inventories | 11 | 21 | 253 |
| Other current assets | 12 | 27 | 347 |
| Total current assets | | 592 | 3,607 |
| Non-current assets | | | |
| Trade and other receivables | 13 | - | 227 |
| Loan receivable | 14 | - | 232 |
| Property, plant and equipment | 15 | 11,798 | 5,987 |
| Investment properties | 16 | 1,955 | 5,850 |
| Other non-current assets | 17 | 5 | 5 |
| Total non-current assets | | 13,758 | 12,301 |
| TOTAL ASSETS | | 14,350 | 15,908 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 18 | 229 | 481 |
| Interest-bearing liabilities | 19 | 58 | 58 |
| Unearned income | 20 | - | 1,280 |
| Total current liabilities | | 287 | 1,819 |
| Non-current liabilities | | | |
| Interest-bearing liabilities | 19 | 63 | 122 |
| Deferred tax liabilities | 7 | - | - |
| Total non-current liabilities | | 63 | 122 |
| TOTAL LIABILITIES | | 350 | 1,941 |
| NET ASSETS | | 14,000 | 13,967 |
| EQUITY | | | |
| Contributed equity | 21 | 11,450 | 9,898 |
| Reserves | 22 | 3,355 | 2,720 |
| Retained earnings | | (805) | 1,349 |
| TOTAL EQUITY | | 14,000 | 13,967 |

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 2013

| | | Consolidated | |
|---|---|--------------|---------|
| | | 2013 | 2012 |
| Notes | | \$'000 | \$'000 |
| Cash flows from operating activities | | | |
| | Receipts from customers | 390 | 742 |
| | Payments to suppliers and employees | (2,130) | (2,330) |
| | Interest received | 39 | 103 |
| | Borrowing costs | (13) | (16) |
| | Net cash flows from continuing operations | (1,714) | (1,501) |
| | Net cash flows from discontinued operations | 6 (316) | (425) |
| | Net cash flows (used in)/from operating activities | 25 (2,030) | (1,926) |
| Cash flows from investing activities | | | |
| | Proceeds from sale of investment properties | 14 | 1,700 |
| | Purchase of investment properties | (100) | - |
| | Purchase of property, plant and equipment | (91) | (136) |
| | Net cash flows from/(used in) investing activities | (177) | 1,564 |
| Cash flows from financing activities | | | |
| | Proceeds from capital raising | 1,446 | 1,305 |
| | Cash placed on term deposit | - | (65) |
| | Repayment of borrowings | (71) | (59) |
| | Proceeds from borrowings | 10 | 40 |
| | Net cash flows from/(used in) financing activities | 1,385 | 1,221 |
| Net increase/(decrease) in cash and cash equivalents | | (822) | 859 |
| | Cash and cash equivalents at beginning of year | 1,227 | 368 |
| | Cash and cash equivalents at end of year | 9 405 | 1,227 |

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 2013

| | Issued Capital \$'000 | Treasury Shares \$'000 | Property, plant & equipment Revaluation Reserve | Option Reserve \$'000 | Retained Earnings \$'000 | Total \$'000 |
|--|-----------------------------|------------------------------|---|-----------------------------|--------------------------------|-----------------|
| Balance at 1 July 2011 | 9,043 | (450) | 2,448 | 68 | 5,291 | 16,400 |
| Loss for the period | - | - | - | - | (3,942) | (3,942) |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | (3,942) | (3,942) |
| Issue of shares | 1,305 | - | - | - | - | 1,305 |
| Share-based payment | - | - | - | 204 | - | 204 |
| Balance at 30 June 2012 | 10,348 | (450) | 2,448 | 272 | 1,349 | 13,967 |
| Balance at 1 July 2012 | 10,348 | (450) | 2,448 | 272 | 1,349 | 13,967 |
| Loss for the period | - | - | - | - | (2,154) | (2,154) |
| Other comprehensive income | - | - | 635 | - | - | 635 |
| Total comprehensive income | - | - | 635 | - | (2,154) | (1,519) |
| Issue of shares | 1,446 | - | - | - | - | 1,446 |
| Issue of shares under share-based payments | 106 | - | - | - | - | 106 |
| Balance at 30 June 2013 | 11,900 | (450) | 3,083 | 272 | (805) | 14,000 |

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

1. Corporate information

The financial report for Kangaroo Island Plantation Timbers Ltd for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 30 September 2013.

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, freehold land and available-for-sale investments that have been measured at fair value and biological assets that have been measured at fair value less costs to sell. 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 98/100. The Company is an entity to which the class order applies.

b) 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 year ended 30 June 2013, the Group incurred a net loss after tax of \$2,154,000 and a net cash outflow used in operating activities of \$2,030,000. In addition, total cash outflows from investing activities were \$177,000 and net cash inflows from financing activities were \$1,385,000. The cash and cash equivalents balance, as at 30 June 2013 was \$405,000. The consolidated entity's net current asset position at 30 June 2013 was \$305,000.

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 through an equity issue and is investigating and assessing its funding option; but note that this has not been secured at the date of this report.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

c) 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.

d) New accounting standards and interpretations

New and amended standards adopted by the Group

The accounting policies adopted are consistent with those of the previous financial year except as follows:

AASB 2010-8 Amendments to Australian Accounting Standard – Deferred Tax: Recovery of Underlying Assets (Applies to annual reporting periods beginning on or after 1 January 2012)

AASB 2010-8 provides clarification on the determination of deferred tax assets and deferred tax liabilities when investment properties are measured using the fair value model in AASB 140 Investment Properties. It introduces a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model where the objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

AASB 2010-8 also includes the requirement that the measurement of deferred tax assets and deferred tax liabilities on non-depreciable assets measured using the revaluation model in AASB 116 Property, Plant and Equipment should always be based on recovery through sale.

These amendments have had no impact on the Group.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (Applies annual reporting periods beginning on or after 1 July 2012)

AASB 2011-9 requires entities to group items presented in Other Comprehensive Income on the basis of whether they are potentially re-classifiable to profit or loss subsequently, and changes the title of ‘statement of comprehensive income’ to ‘statement of profit or loss and other comprehensive income’.

The adoption of the new and revised Australian Accounting Standards and Interpretations has had no significant impact on the Group’s accounting policies or the amounts reported during the current half-year period. The adoption of AASB 2011-9 has resulted in changes to the Group’s presentation of its financial statements.

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

The Group notes the following Accounting Standards which have been issued but are not yet effective at 30 June 2013. These standards have not been adopted early by the Group. The Group’s assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective from 1 January 2015)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss).
- Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows;
 - The change attributable to changes in credit risk are presented in other comprehensive income (OCI) and;
 - The remaining change is presented in profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The de-recognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Group has not yet decided when to adopt AASB 9.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments (effective 1 January 2013)

- AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities.

The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on the transactions and balances recognised in the financial statements.

- AASB 11 replaces AASB 131 Interests in Joint Ventures and AASB Interpretation 113 Jointly-controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change.

In addition, AASB 11 removes the option to account for jointly-controlled entities using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations for liabilities are accounted for by recognising the share of those assets and liabilities. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method.

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the Group has not entered into any joint arrangements.

- AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on the transactions and balances recognised in the financial statements.

(iii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard will impact the type of information disclosed in the notes to the financial statements.

The Group is yet to undertake a detailed analysis of the differences between the current fair valuation methodologies used and those required by AASB 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 January 2013.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

(iv) Revised AASB 119 Employee Benefits and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The AASB released a revised standard on accounting for employee benefits. It requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method), the immediate recognition of all past service cost in profit or loss and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively.

The Group does not have any defined benefit plans. Therefore, these amendments will have no impact on the Group.

(v) AASB Interpretation 20 Stripping Costs in the Production Phase of Surface Mining

This interpretation clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 102 Inventories, if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, (if certain recognition criteria are met, as an addition to, or enhancement of, an existing asset).

The Group does not operate a surface mine. Therefore, there will be no impact on the financial statements when this interpretation is first adopted.

(vi) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

The Standard amends AASB 124 Related Party Disclosures to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. This amendment reflects the AASB's view that these disclosures are more in the nature of governance disclosures that are better dealt within the legislation, rather than by the accounting standards.

When these amendments are first adopted for the year ending 30 June 2014, they are unlikely to have any significant impact on the Group.

(vii) AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This Standard also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

When this AASB 2012-2 is first adopted for the year ended 30 June 2014, there will be no impact on the Group as the Group does not have any netting arrangements in place.

(viii) AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

When AASB 2012-3 is first adopted for the year ended 30 June 2015, there will be no impact on the Group as this standard merely clarifies existing requirements in AASB 132.

(ix) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When these amendments are adopted for the first time on 1 January 2014, they are unlikely to have any significant impact on the Group given that they are largely of the nature of clarification of existing requirements.

(x) IFRIC Interpretation 21 Levies

IFRIC 21 addressed how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements (in particular, when the entity should recognise a liability to pay a levy).

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

When this interpretation is adopted for the first time on 1 January 2014, there will be no significant impact on the financial statements as the Group is not subject any levies addressed by this interpretation.

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

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

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

e) 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).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Group controls another entity.

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 separate financial statements of 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.

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

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

f) 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.

g) 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.

h) 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

i) 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 zero in respect of all timber plantations that it has no present intention to remediate for reversion to agricultural use.

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.

j) 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

k) 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:

| | <u>Straight Line</u> |
|---------------------------|----------------------|
| 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.

l) 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

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.

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 statement of profit or loss and other comprehensive income.

m) Inventories

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw Materials: purchase costs on a first in, first out basis;
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

n) 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.

o) 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

q) 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 that 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 income statement 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.

r) 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.

s) 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.

Rendering of services/Unearned income

This represents lease and management fees that are invoiced annually in advance in June each year. This income is brought to account on a monthly basis. Lease and management fees are recognised as they accrue under the relevant lease and management agreement.

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

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.

Rent

Rent is recognised as it accrues under the relevant rental agreement.

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:

- 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

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.

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) Profit or loss from discontinued operations

A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the statement of profit or loss and other comprehensive income.

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

v) 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.

w) Comparative figures

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

x) 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 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 \$2,599 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 \$2,599 is derived from sales of similar land on the Island.

Recoverability of grower loans – impairment allowance

All loans to former growers are now considered fully impaired and completely uncollectable.

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.

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 the only impairment in the year to 30 June 2013 was to the Mill, as a consequence of the February fire, as determined by the insurance assessor.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

3. Financial risk management objectives and policies

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.

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. The level of debt is disclosed in Note 19. As the loans provided to growers and Carlsen Logging Pty Ltd are at a fixed rate of interest, there is no interest rate exposure in relation to those loans.

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 | |
|------------------------------|---------------------|---------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Financial assets | | |
| Cash and cash equivalents | 405 | 1,227 |
| Term deposits | 65 | 65 |
| Loans receivable | - | - |
| | 470 | 1,292 |
| Financial liabilities | | |
| Interest bearing liabilities | - | - |
| | 470 | 1,292 |
| Net exposure | 470 | 1,292 |

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 2013, 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:

| | Post tax profit | | Equity | |
|--|------------------------|---------------|-----------------------|---------------|
| | Higher/(lower) | | Higher/(lower) | |
| | 2013 | 2012 | 2013 | 2012 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Judgements of reasonably possible movements: | | | | |
| Consolidated | | | | |
| +1% | 5 | 13 | - | - |
| -0.5% | (2) | (6) | - | - |

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

3. Financial risk management objectives and policies (continued)

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 and Rabobank Australia Ltd, which both have a 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 all 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 loan 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 2013.

Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2013.

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

| | Consolidated | |
|------------------|---------------------|--------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| 6 months or less | (287) | (612) |
| 6-12 months | - | - |
| 1-5 years | (63) | (122) |
| Over 5 years | - | - |
| | (350) | (734) |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

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.

| Year ended 30 June 2013 | < 6 months \$'000 | 6-12 months \$'000 | 1-5 years \$'000 | > 5 years \$'000 | Total \$'000 |
|---------------------------------------|-------------------------|--------------------------|------------------------|---------------------|-----------------|
| Financial Assets | | | | | |
| Cash and cash equivalents | 405 | - | - | - | 405 |
| Term deposits | 65 | - | - | - | 65 |
| Trade and other receivables | 101 | - | - | - | 101 |
| Other financial assets | - | - | 5 | - | 5 |
| | 571 | - | 5 | - | 576 |
| Financial Liabilities | | | | | |
| Trade and other payables | (229) | - | - | - | (229) |
| Interest bearing loans and borrowings | (58) | - | (63) | - | (121) |
| | (287) | - | (63) | - | (350) |
| Net Maturity | 284 | - | (58) | - | 226 |
| | | | | | |
| Year ended 30 June 2012 | | | | | |
| Financial Assets | | | | | |
| Cash and cash equivalents | 1,227 | - | - | - | 1,227 |
| Term deposits | 65 | - | - | - | 65 |
| Trade and other receivables | 1,715 | - | 227 | - | 1,942 |
| Loans receivable | - | - | 232 | - | 232 |
| Other financial assets | 158 | - | 5 | - | 163 |
| | 3,165 | - | 464 | - | 3,629 |
| Financial Liabilities | | | | | |
| Trade and other payables | (373) | - | - | - | (373) |
| Interest bearing loans and borrowings | (58) | - | (122) | - | (180) |
| | (431) | - | (122) | - | (553) |
| Net Maturity | 2,734 | - | 342 | - | 3,076 |

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 no longer holds investments in equity securities.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

4. Segment reporting

The Group's primary segment reporting format is business segments as the Group's risks and returns are affected predominately by differences in the products and services produced.

Year ended 30 June 2013

During the year the MIS operations were terminated and the Schemes are being wound up. In addition the Milling operations ceased following the Mill fire. The Group still owns the Mill and maintains the equipment. The Group now only 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.

| | Forestry \$'000 | Finance and Forestry (Discontinued operations) \$'000 | Unallocated \$'000 | Total \$'000 |
|---|--------------------|---|-----------------------|-----------------|
| 30 June 2013 | | | | |
| Revenue | | | | |
| Revenue from external customers | 461 | - | - | 461 |
| Revenue from discontinued operations | - | 874 | - | 874 |
| Total segment Revenue | 461 | 874 | - | 1,335 |
| Result | | | | |
| Segment result | (1,561) | (852) | - | (2,413) |
| Profit/(loss) before tax and finance costs | (1,561) | (852) | - | (2,413) |
| Finance costs | | | | (13) |
| Income tax benefit/(expense) | | | | 272 |
| Profit after tax | | | | (2,154) |
| Assets and liabilities | | | | |
| Segment assets | 14,350 | - | - | 14,350 |
| Total assets | 14,350 | - | - | 14,350 |
| Segment liabilities | 350 | - | - | 350 |
| Total liabilities | 350 | - | - | 350 |
| Group net assets from continuing operations | | | | 14,000 |
| Other segment information | | | | |
| Impairment of receivables | - | 990 | - | 990 |
| Depreciation | 170 | - | - | 170 |

The continued forestry segmental results include certain head office costs that have been significantly reduced as a result of the Group strategic restructure. The primary changes are:

- Number of employees have reduced from 10 to 5 including 3 directors. The staff costs are expected to reduce by \$500,000.
- The directors are being paid by shares in lieu of cash, as approved by the shareholders at the 28 June 2013 EGM;
- There are no property lease costs, in the current year these costs amounted to \$291,000.
- The Perth Office was closed reducing operating lease costs by \$65,000 per annum.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

4. Segment reporting (continued)

Year ended 30 June 2012

The forestry management segment primarily involves the packaging, marketing, establishment and management of investment in timber plantations and milling operations associated with the purchase of the former assets of SFMA. A number of costs and balances associated with this segment have been discontinued with the termination of the MIS.

The finance segment was created to support the marketing of timber investments through the raising and provision of finance to investors in the promoted projects. This segment was discontinued with the termination of the MIS.

All operations are conducted in Australia.

| | Forestry | Finance and Forestry Discontinued operations) | Unallocated | Total |
|--|----------|--|-------------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 30 June 2012 | | | | |
| Revenue | | | | |
| Revenue from external customers | 249 | - | - | 249 |
| Revenue from discontinued operations | - | 1,715 | - | 1,715 |
| Unallocated | - | - | 31 | 31 |
| Total segment result | 249 | 1,715 | 31 | 1,995 |
| Result | | | | |
| Segment result | (856) | (2,974) | (699) | (4,529) |
| Profit/(loss) before tax and finance costs | (856) | (2,974) | (699) | (4,529) |
| Finance costs | | | | (16) |
| Income tax benefit/(expense) | | | | 603 |
| Profit after tax | | | | (3,942) |
| Assets and liabilities | | | | |
| Segment assets | 14,146 | 1,026 | 736 | 15,908 |
| Total assets | 14,146 | 1,026 | 736 | 15,908 |
| Segment liabilities | 1,258 | 399 | 284 | 1,941 |
| Total liabilities | 1,258 | 399 | 284 | 1,941 |
| Group net assets from continuing and discontinued operations | | | | 13,967 |
| Other segment information | | | | |
| Impairment of receivables | - | 3,372 | - | 3,372 |
| Depreciation | 130 | - | - | 130 |

Revenue

During the year revenue from timber sales to Tarmac amounted to \$301,832 (2012: \$169,625), being 22% (2012: 9%) of total revenue. In addition, discontinued revenue from Primary Securities management and lease fees amounted to \$477,328 (2012: \$918,599) being 35% (2012: 45%) of total revenue

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

5. Revenue and expenses

| | Consolidated | |
|---|--------------|------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| (a) Other income | | |
| Fair value gain on sale of investment properties | 683 | 439 |
| Other | 83 | 21 |
| Other income from continued operations | <u>766</u> | <u>460</u> |
| (b) Other expenses | | |
| Impairment of receivables | - | 5 |
| Share-based payment | 106 | 210 |
| Audit fees (including scheme audit fees) | 58 | 61 |
| Property, plant and equipment write off | 75 | 3 |
| Inventory write off | - | 55 |
| ASIC fees | 7 | 5 |
| Depreciation | 170 | 130 |
| ASX/share registry fees | 40 | 21 |
| Directors fees | 68 | 116 |
| Legal fees | - | 7 |
| Professional fees | 250 | 76 |
| Other corporate expenses | 17 | 48 |
| Other expenses from continued operations | <u>791</u> | <u>737</u> |
| (c) Finance costs | | |
| Loan interest | 13 | 16 |
| Finance costs from continued operations | <u>13</u> | <u>16</u> |
| (d) Employee benefits expense excluding directors fees | | |
| <i>From Continuing Operations</i> | | |
| Wages and salaries | 627 | 439 |
| Share-based payments | 48 | 216 |
| Superannuation costs | 60 | 56 |
| | <u>735</u> | <u>711</u> |
| <i>From Discontinued Operations</i> | | |
| Wages and salaries | 80 | 222 |
| Superannuation costs | 6 | 20 |
| | <u>86</u> | <u>242</u> |
| Total from continued and discontinued | <u>821</u> | <u>953</u> |
| (e) Other costs | | |
| Cost of goods sold | 783 | 272 |
| Operating leases | 65 | 66 |
| Plantation lease fees from discontinued operations | <u>291</u> | <u>381</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

6. Discontinued operations

The 100% subsidiary, RuralAus Plantations Management Pty Ltd was the manager of five managed investment schemes ("MIS") involving blue gum and pine plantations. The MIS were located on Kangaroo Island, South Australia and Bremer Bay, Western Australia. During the year, the decision was made to terminate the five MIS and as a result the Bremer Bay lease was terminated. RuralAus Finance Limited marketed the timber investment through the raising of and provision of finance to investors in the MIS projects.

The profit and loss of the five MIS and related management, investor loans and property costs has been reported in these financial statements as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below:

a. Financial Performance

| | 2013 | 2012 |
|--|---------|---------|
| | \$'000 | \$'000 |
| Revenue | 874 | 1,715 |
| Expenses | (1,726) | (4,689) |
| Profit before income tax | (852) | (2,974) |
| Income tax expense | - | - |
| Loss after income tax of discontinued operations | (852) | (2,974) |
| Loss on termination of operation | - | - |
| Loss from discontinued operations | (852) | (2,974) |

b. Details of assets and liabilities

At 30 June 2013, all asset balances relating to the managed investment schemes were fully impaired and there were no liabilities in relation to discontinued operations.

7. Income tax

| | Consolidated | |
|---|--------------|--------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| a) Income tax expense | | |
| The major components of income tax expense are: | | |
| Income Statement | | |
| <i>Adjustments in relation to previous income tax</i> | - | - |
| <i>Deferred income tax</i> | | |
| Benefit from previously unrecognised tax loss used to reduce deferred tax expense | (272) | (603) |
| Income tax expense/(benefit) reported in income statement | (272) | (603) |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

7. Income tax (continued)

| | Consolidated | |
|---|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Accounting profit/(loss) before tax from continuing and discontinued operations | (2,426) | (4,545) |
| At the statutory income tax rate of 30% (2012: 30%) | (728) | (1,363) |
| Add: Non-deductible expenses/capital gain on sale of land | 31 | 499 |
| Tax loss not brought to accounts as a deferred tax asset | 424 | 547 |
| Temporary differences not recognised | - | (246) |
| Adjustments in relation to previous income tax | - | (40) |
| Income tax expense/(benefit) reported in income statement | (272) | (603) |
| | | |
| b) Amounts charged or credited to equity | | |
| Deferred income tax related to items charged (credited) to equity | | |
| Net gain on property, plant and equipment | 272 | - |
| Income tax expense reported in equity | 272 | - |

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.

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 2013 amount to \$6,843,127 (2012: \$4,459,400).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

7. Income tax (continued)

Recognised deferred tax assets and liabilities

| | Assets | | Liabilities | | Net | |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| <i>CONSOLIDATED</i> | | | | | | |
| Inventory | - | (24) | - | - | - | (24) |
| Trade and other receivables | (833) | (653) | 1,137 | 1,114 | 304 | 461 |
| Property, plant and equipment | (1,298) | (1,211) | 1,828 | 2,698 | 530 | 1,487 |
| Trade and other payables | (15) | (36) | - | - | (15) | (36) |
| Tax losses | (819) | (1,888) | - | - | (819) | - |
| Tax (assets)/liabilities | (2,965) | (3,812) | 2,965 | 3,812 | - | - |
| Set off of tax | 2,965 | 3,812 | (2,965) | (3,812) | - | - |
| Net tax (assets)/liabilities | - | - | - | - | - | - |

Deferred income tax

Deferred income tax at 30 June 2013 relates to the following:

| Movements in temporary differences during the year | Balance 1/7/12 \$'000 | Recognised in Income \$'000 | Recognised in Equity \$'000 | Balance 30/6/13 \$'000 |
|---|-----------------------------|-----------------------------------|-----------------------------------|------------------------------|
| Property, plant and equipment | 1,487 | (1,229) | 272 | 530 |
| Inventory | (24) | 24 | - | - |
| Trade and other receivables | 461 | (157) | - | 304 |
| Trade and other payables | (36) | 21 | - | (15) |
| Tax losses | (1,888) | 1,069 | - | (819) |
| | - | (272) | 272 | - |

| Movements in temporary differences during the prior year | Balance 1/7/11 \$'000 | Recognised in Income \$'000 | Recognised in Equity \$'000 | Balance 30/6/12 \$'000 |
|---|-----------------------------|-----------------------------------|-----------------------------------|------------------------------|
| Property, plant and equipment | 2,546 | (1,059) | - | 1,487 |
| Inventory | - | (24) | - | (24) |
| Trade and other receivables | 106 | 355 | - | 461 |
| KI Feasibility | (12) | 12 | - | - |
| Loans and borrowings | (3) | 3 | - | - |
| Trade and other payables | (15) | (21) | - | (36) |
| Tax losses | (2,019) | 131 | - | (1,888) |
| | 603 | (603) | - | - |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

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:

a) Earnings used in calculating earnings per share

| | Consolidated | |
|---|---------------------|---------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Continuing Net loss attributable to ordinary equity holders of the parent | (1,302) | (968) |
| Continuing and Discontinuing net loss attributable to ordinary equity holders of the parent | (2,154) | (3,942) |

b) Weighted average number of shares

| | <i>Thousands</i> | <i>Thousands</i> |
|---|------------------|------------------|
| <i>Weighted average number of ordinary shares for basic earnings per share</i> | 112,348 | 62,820 |
| Effect of dilution: | | |
| Share options | - | - |
| <i>Weighted average number of ordinary shares adjusted for the effect of dilution</i> | 112,348 | 62,820 |

Post-consolidation

On the 2 July 2013 the shares were consolidated on a 1 for 500 basis, the consolidated weighted average number of share is as follows

| | <i>Thousands</i> | <i>Thousands</i> |
|--|------------------|------------------|
| <i>Post -consolidation weighted average number of ordinary shares for basic earnings per share</i> | 225 | 126 |
| Effect of dilution: | | |
| Share options | - | - |
| <i>Weighted average number of ordinary shares adjusted for the effect of dilution</i> | 225 | 126 |

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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

9. Current assets – Cash and cash equivalents

Reconciliation to Cash Flow Statement

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:

| | Consolidated | |
|--------------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Cash at bank and in hand | 405 | 1,227 |
| | 405 | 1,227 |

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.

10. Current assets – Trade and other receivables

| | Consolidated | |
|--|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Trade receivables (a) | 74 | 121 |
| Interest receivable from Growers (c) | 1,784 | 1,710 |
| Loans to Growers (b) | 991 | 998 |
| Allowance for impairment loss (e) | (2,775) | (2,012) |
| | - | 696 |
| Grower management fee (d) | - | 1,062 |
| Allowance for impairment loss (e) | - | (164) |
| | - | 898 |
| Carrying amount of trade and other receivables | 74 | 1,715 |

a) Terms of trade

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

b) Loans to growers

The above amount represents the portion of loans to growers that is due within the next 12 months. The MIS schemes are in the process of being terminated; therefore a provision has been made against all outstanding loans.

c) Interest receivable

Represents outstanding interest charged on loans to growers. It is due and payable immediately. The MIS schemes are in the process of being terminated; therefore a provision has been made against all outstanding interest.

d) Grower management fees

Represents grower lease and management fees invoiced and charged to date. These amounts are immediately due and payable. The MIS schemes are in the process of being terminated; therefore a provision has been made against all outstanding fees and any prepaid fees have been refunded during the year.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

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

e) Allowance for impairment loss

An impairment loss is recognised when there is objective evidence that a trade receivable is impaired. An allowance for impairment loss of \$763,000 (2012: \$1,112,000) has been recognised by the Group in Discontinued Operations for the current year for specific debtors and debtors assessed on a collective basis, as described in Note 2(f), for which such evidence exists. During the year, \$164,000 (2012: \$2,068,000) of the allowance was written off against the outstanding provision and the loan and/or lease and management fees.

At 30 June 2013 the MIS were in the process of being terminated. At 30 June 2012, a total of 39 loans, representing \$1,943,000 in outstanding principal and interest were either in breach or default. At 30 June, the ageing analysis of trade receivables is as follows:

| Consolidated | | Total | 61-90 Days | 61-90 Days | + 91 Days | + 91 Days |
|--------------|-----------------------------|--------------|------------|------------|------------|--------------|
| | | | PDNI* | CI* | PDNI* | CI* |
| 2013 | Trade and other Receivables | 74 | 74 | - | - | - |
| | Interest receivable | 1,784 | - | - | - | 1,784 |
| | Loans to growers | 991 | - | - | - | 991 |
| | Other current assets | 27 | 27 | - | - | - |
| | | 2,876 | 101 | - | - | 2,775 |
| 2012 | Trade and other Receivables | 121 | 121 | - | - | - |
| | Interest receivable | 1,710 | - | - | 209 | 1,501 |
| | Loans to growers | 998 | - | - | 71 | 927 |
| | Grower management fee | 1,062 | - | - | 655 | 407 |
| | Other current assets | 347 | 347 | - | - | - |
| | | 4,238 | 468 | - | 935 | 2,835 |

*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

f) 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 3. The net carrying amount of trade and other receivables is assumed to approximate their fair value.

Movements in the allowance for impairment loss were as follows:

| | Consolidated | |
|---|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| <i>Loans receivable</i> | | |
| At 1 July | 2,012 | 2,814 |
| Charge for the year | 763 | 1,054 |
| Amounts written off | - | (1,856) |
| At 30 June | 2,775 | 2,012 |
| <i>Lease and Management fees receivable</i> | | |
| At 1 July | 164 | 318 |
| Charge for the year | - | 58 |
| Amounts written off | (164) | (212) |
| At 30 June | - | 164 |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

11. Inventories

| | Consolidated | |
|--|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Raw materials (at cost) | - | 83 |
| Finished goods (at cost or net realisable value) | 21 | 170 |
| | 21 | 253 |

12. Current assets - Other

| | Consolidated | |
|--|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Monies held by Responsible Entity to be banked | - | 158 |
| Prepayments | 27 | 182 |
| Other | - | 7 |
| | 27 | 347 |

13. Non-current assets – Trade and other receivables

| | Consolidated | |
|-----------------------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Loans to growers (a) | 4,263 | 4,263 |
| Allowance for impairment loss (b) | (4,263) | (4,036) |
| | - | 227 |

a) Loans to Growers

Loans to Growers are interest bearing with principal repayable at harvest in one to two years. The MIS schemes are in the process of being terminated; therefore a provision has been made against all outstanding loans.

b) Allowance for impairment loss

An impairment loss of \$227,000 (2012: \$2,260,000) has been recognised by the Group in Discontinued Operations for the current year. All non-current loans to growers are in Plantation Forestry Hardwood Project # 1, in which the Group has guaranteed a return of \$nil (2012: \$9,000) per woodlot to those growers who obtained finance from RuralAus Finance Limited to the extent of their borrowings from RuralAus Finance Limited. The MIS schemes are in the process of being terminated; therefore a provision has been made against all outstanding loans.

c) Fair values

The net carrying amount of loans to growers is assumed to approximate their fair value.

| | Consolidated | |
|-------------------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Loans to growers | 4,263 | 4,263 |
| Allowance for impairment loss | (4,263) | (4,036) |
| | - | 227 |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

14. Loans

| | Consolidated | |
|----------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Non-current | | |
| Carlsen Logging Loan | - | 232 |
| | - | 232 |

Carlsen Logging Loan

The Carlsen loan was found to be in default during the year and as a result the Company took possession over the assets securing the loan. The assets have been capitalised as Property, Plant and Equipment, refer to Note 15.

During 2011, a \$210,000 loan was granted to Carlsen Logging Pty Ltd. The terms of the loan were as follows:

- Initial loan amount is \$210,000
- Principal repayable in 36 equal monthly instalments commencing one month after the commencement of harvest operations at Kangaroo Island.
- Interest is payable monthly in arrears at 8% pa. Should monthly repayments not be received by the 14th day following month end, an additional 3% interest may be charged.

Registered security had been taken over specific assets that were offered as security by Carlsen Logging Pty Ltd. The title of the assets has passed to the Group as the loan terms were breached. The assets have been capitalised at \$246,340 in Note 15 Property, Plant and Equipment.

15. 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 2013 | | | |
| At 1 July 2012 net of accumulated depreciation and impairment | 5,085 | 902 | 5,987 |
| Additions | 91 | 17 | 108 |
| Assets received in lieu of loan (Note 14) | - | 246 | 246 |
| Transfer from investment properties | 4,734 | - | 4,734 |
| Disposals | - | (117) | (117) |
| Adjustment in accumulated depreciation in relation to disposals | - | 104 | 104 |
| Depreciation charge for year | (35) | (135) | (170) |
| Revaluations | 906 | - | 906 |
| At 30 June 2013 net of accumulated depreciation and impairment | 10,781 | 1,017 | 11,798 |
| At 30 June 2013 | | | |
| Cost or fair value | 10,851 | 1,279 | 12,130 |
| Accumulated depreciation and impairment | (70) | (262) | (332) |
| Net carrying amount | 10,781 | 1,017 | 11,798 |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

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

| | Freehold land \$'000 | Plant and equipment \$'000 | Total \$'000 |
|---|----------------------------|----------------------------------|-----------------|
| Year ended 30 June 2012 | | | |
| At 1 July 2011 net of accumulated depreciation and impairment | 5,120 | 943 | 6,063 |
| Additions | - | 132 | 132 |
| Disposals | - | (146) | (146) |
| Adjustment in accumulated depreciation in relation to disposals | - | 68 | 68 |
| Depreciation charge for year | (35) | (95) | (130) |
| Revaluations | - | - | - |
| At 30 June 2012 net of accumulated depreciation and impairment | 5,085 | 902 | 5,987 |
| At 30 June 2012 | | | |
| Cost or fair value | 5,120 | 1,133 | 6,253 |
| Accumulated depreciation and impairment | (35) | (231) | (266) |
| Net carrying amount | 5,085 | 902 | 5,987 |

b) Freehold land acquired during the year and revaluations

During the year the Company commenced the termination of the MIS and as a result \$4,734,000 of land has been transferred from investment property to freehold land. In addition, \$91,000 of land was acquired on Kangaroo Island and classified as property held for production, as opposed to investment properties.

In the prior year, as part of the SMFA acquisition, unencumbered freehold land was acquired. This land represented eight of the ten properties that were purchased. The remaining two properties were encumbered with MIS plantations and accordingly, were classified as Investment properties in the prior year.

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 two years (in the prior year independent valuations were used to value all land). See Note 16 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 \$2,727,291 (2012: \$2,636,600).

c) Property acquired using a Chattel Mortgage Agreement

Equipment including a 70,000 litre diesel tank, a Volvo loader and a Nissan Navara are held under Chattel Mortgage arrangements. As of 30 June 2013, the net carrying amount of assets held under the arrangements is \$176,374 (2012: \$206,342).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

16. Non-current assets – Investment properties

| | Consolidated | |
|-----------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| At Fair value | | |
| Investment properties | 1,955 | 5,850 |
| | 1,955 | 5,850 |

Investment properties are carried at fair value, which has been determined by the Directors with reference recent land sales on Kangaroo Island.

In the prior year independent valuations were conducted on the Group's landholdings in May/June 2011 by Colliers International, who are industry specialists in valuing these types of investment properties and who also reviewed and confirmed their valuation in June 2012.

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 \$2,599 per arable hectare (before allowances for fencing and other costs);
- No value has been ascribed to uncleared land under natural vegetation;
- No value has been ascribed to structural improvements.

These inputs have been referenced to market information.

| | Consolidated | |
|--|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| <i>Investment Properties</i> | | |
| Opening balance as at 1 July | 5,850 | 7,035 |
| Acquisitions | 156 | - |
| Transferred as a result of MIS termination | (4,734) | - |
| Disposals | - | (1,185) |
| Fair value adjustment | 683 | - |
| Closing balance as at 30 June | 1,955 | 5,850 |

17. Non-current assets - Other

| | Consolidated | |
|--------------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Other receivables | 368 | 368 |
| Allowance for impairment | (368) | (368) |
| Other | - | - |
| | 5 | 5 |

Other receivables

This relates to expenses incurred in relation to a property development, and paid by the Group. It had previously been reported that the property development was conducted by the third party who purchased the Group's Toocalup and Myamba properties. However, it has since been disclosed that a company of which Peter Kinnear (the former CEO) and George Gear (the former Chairman) are directors purchased the development from the third party. The Group is in negotiations as to the reimbursement of part or all of the incurred expenses from that company.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

18. Current liabilities – Trade and other payables

| | Consolidated | |
|--------------------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Trade payables (a) | 200 | 265 |
| Other payables (b) | 22 | 108 |
| Goods and Services tax payable | 4 | 40 |
| PAYE tax payable | 3 | 68 |
| | 229 | 481 |

a) Trade payables

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

b) Other payables

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

c) Fair value

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

19. Interest-bearing liabilities

| | Consolidated | |
|---------------------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Current | | |
| Chattel mortgage agreements (a) | 58 | 58 |
| | 58 | 58 |
| Non-current | | |
| Chattel mortgage agreements (a) | 63 | 122 |
| | 63 | 122 |

a) Chattel mortgage agreements relate to three goods mortgages with De Lage Landen for the purchase of a 70,000 litre diesel fuel tank, a Volvo loader and a Nissan Navara. Security for these loans extends only to the three assets subject to the agreement. The agreements for the fuel tank and Volvo Loader are to be repaid in 4 annual instalments with the Nissan paid monthly over a four year term ending in July 2015.

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

20. Current liabilities – Unearned income

| | Consolidated | |
|--|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Grower prepaid lease and management fees (a) | - | 919 |
| Borrower prepaid interest (b) | - | 361 |
| | - | 1,280 |

a) Grower prepaid lease and management fees

In the prior year grower management fees represent management fees paid in the current financial year but not due until the 2012/13 financial year.

b) Borrower prepaid interest

In the prior year, Borrower prepaid interest represents interest paid in the current financial year but not due until the following financial year.

21. Contributed equity

a) Issued and paid up capital

| | Consolidated | |
|----------------------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Ordinary shares fully paid | 11,450 | 9,898 |

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

b) Movements in shares on issue

| | 2013 | | 2012 | |
|-----------------------------|---------------------|---------------|---------------------|--------|
| | Number of shares | \$'000 | Number of shares | \$'000 |
| Beginning of financial year | 66,131,354 | 9,898 | 55,067,769 | 8,593 |
| Issue of shares | 498,235,155 | 1,495 | 11,063,585 | 1,305 |
| Share-based payment | 17,452,967 | 106 | - | - |
| Share issue costs | - | (49) | - | - |
| End of the financial year | 581,819,476 | 11,450 | 66,131,354 | 9,898 |

c) Capital management

Capital consists of share capital and borrowings of \$11.571 million (2012: \$10.451 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

21. Contributed equity (continued)

Management monitor capital through the gearing ratio (net debt/total capital). The gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

| | Consolidated | |
|--------------------------------|---------------------|---------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Trade and other payables | 229 | 481 |
| Interest bearing liabilities | 121 | 180 |
| Less cash and cash equivalents | (470) | (1,292) |
| Net debt | (120) | (631) |
| Total equity | 14,000 | 13,367 |
| Total capital | 13,880 | 12,736 |
| | | |
| Gearing Ratio | (0.86%) | (4.95%) |

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

22. Reserves

| | Consolidated | |
|---|---------------------|--------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Option reserve (a) | 272 | 272 |
| Property, plant and equipment reserve (b) | 3,083 | 2,448 |
| | 3,355 | 2,720 |

a) Option reserve

| | Consolidated | |
|----------------------------|---------------------|--------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Opening balance at 1 July | 272 | 68 |
| Share-based payment | - | 204 |
| Closing balance at 30 June | 272 | 272 |

b) Property, plant and equipment revaluation reserve

| | Consolidated | |
|--|---------------------|--------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Opening balance at 1 July | 2,448 | 2,448 |
| Net fair value gain on property, plant and equipment | 635 | - |
| Closing balance at 30 June | 3,083 | 2,448 |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

23. Contingent liabilities

Current year

The Group has issued a guarantee of \$50,000 to ASIC in relation to the financial services license issued to an unrelated party. No liability is expected to arise. This deposit will be refunded to the Company once the schemes are terminated. In addition, a \$23,100 guarantee was issued to Alessandrino Property Group in relation to the lease for the company's offices in East Perth, which is expected to be released in the next few months.

Prior year

A company in the consolidated entity, RuralAus Finance Limited ("RAFL"), has, in return for the payment of an indemnity fee by the company, agreed to indemnify those growers who took out loans with RAFL in relation to Plantation Forestry Hardwood Project # 1, for any shortfall that may be suffered in relation to the balance of the grower's loan at harvest as compared with the grower's net harvest proceeds. No loss has been incurred to date. An impairment allowance of \$4,086,000 has been recognised based on current harvest projections for the prior year. The maximum exposure upon harvest estimated in the prior year for 2013 is \$4,259,000.

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.

24. Contingent assets

The directors are not aware of any contingent assets.

25. Statement of Cash flows

| | Consolidated | |
|---|---------------------|---------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| The fair value of cash and cash equivalents is \$405,220 (2012: \$1,227,038). | | |
| Reconciliation from the net profit after tax to the net cash flows from operations | | |
| Net profit/(loss) | (2,154) | (3,942) |
| <i>Adjustments for</i> | | |
| Depreciation | 170 | 130 |
| Impairment | - | 3,373 |
| Unearned income | 973 | (37) |
| Fair value Increase in investment properties | (683) | (439) |
| Tax on increase in fair value of investment properties | (272) | - |
| Share-based payment | 106 | 216 |
| <i>Changes in assets and liabilities</i> | | |
| (Increase)/decrease in receivables and other debtors | 1,384 | (392) |
| Increase/(decrease) in tax liabilities | - | (581) |
| (Increase)/decrease in stock | 232 | (285) |
| Increase/(decrease) in accounts payable | (672) | 62 |
| Increase/(decrease) in unearned lease fee income | (1,114) | (31) |
| Net cash (used in)/from operating activities | (2,030) | (1,926) |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

26. Events after balance date

On the 28 June 2013, the Company held an Extraordinary General Meeting (“EGM”) at which shareholders resolved to approve the following:

- Changing the Company name to Kangaroo Island Plantation Timbers Ltd;
- The Consolidation of shares on a 1 for 500 basis. On the 2 July 2013, the shares were consolidated from 581,819,476 shares to 1,163,711 shares;
- The issue of shares to directors in lieu of wages, as a result \$72,917 of fees were paid with 16,152,918 pre-consolidation shares on 28 June 2013; and
- The issue of share to formers Growers of up to 13,333,333 (post consolidation 266,667) shares, at the date of this report the prospectus has been released but the shares have not been issued.

Since 30 June 2013, the Company has been invited to respond to RevenueSA regarding the suggested valuation of its recent land acquisition for the purposes of levying stamp duty and has made an announcement to the ASX.

Four of the five Managed Investment Schemes have been deregister since the year end; Scheme 2 is in the process of being deregistered.

The Company held a further EGM on 28 August 2013 and obtained shareholder approval to change auditors.

There have been no other significant events after balance date.

27. Auditor remuneration

The auditor of Kangaroo Island Plantation Timbers Ltd is Grant Thornton Audit Pty Ltd, replacing Ernst & Young following an EGM on 28 August 2013.

| | Consolidated | |
|--|---------------------|--------|
| | 2013 | 2012 |
| | \$ | \$ |
| Amounts received or due and receivable by Grant Thornton Auditors Pty Ltd (2012: Ernst & Young) for: | | |
| An audit or review of the financial report of the entity and any other entity in the consolidated entity | | |
| Grant Thornton | 23,000 | - |
| Ernst & Young | 20,600 | 82,660 |
| Taxation services Grant Thornton | 21,150 | 4,275 |
| | 64,750 | 86,935 |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

28. Key management personnel

(a) Compensation of key management personnel

| | Consolidated | |
|--|----------------|----------------|
| | 2013 | 2012 |
| | \$ | \$ |
| Directors | | |
| Short-term employee benefits | 80,231 | 170,872 |
| Post-employment benefits | 2,752 | 4,128 |
| Share-based payment ⁽¹⁾ | 71,803 | 6,000 |
| | 154,786 | 181,000 |
| Executives | | |
| Short-term employee benefits | 340,531 | 385,692 |
| Fees ⁽²⁾ | 20,141 | - |
| Post-employment benefits | 32,643 | 33,410 |
| Other non-monetary benefits | 9,414 | 10,152 |
| Long Service leave paid on termination | 29,147 | - |
| Long service leave | 599 | 1,900 |
| Share-based payment ^{(1) (2)} | 9,000 | 216,400 |
| | 441,475 | 647,554 |
| Total | 596,261 | 828,554 |

(1) During the year the following remuneration paid in shares:

- On 28 June 2013 6,944,444 ordinary shares were issued to Paul McKenzie in lieu of director's fees amounting to \$31,250 (\$28,409 net of GST), to Agrarian Consulting Pty Ltd <Paul McKenzie family A/C) of which Paul McKenzie is the Managing Director.
- On 28 June 2013 4,629,630 ordinary shares were issued to Fred Woollard in lieu of director's fees amounting to \$20,833 (\$18,939 net of GST), 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.
- On 28 June 2013 3,652,968 ordinary shares were issued to John Sergeant in lieu of director's fees amounting to \$16,667.
- On 28 June 2013 925,926 ordinary shares were issued to Ian Olson in lieu of director's fees amounting to \$4,167 (\$3,788 net of GST).
- On 24 July 2012 300,000 shares were issued, 100,000 each to Ian Olson, John Ipsen and Scott Wallace part of their remuneration package for 2011/12. In the prior year the shares were valued at \$0.06 and \$6,000 was charged for each 100,000 issue; on the issue of the shares they were valued at \$0.10 resulting in a \$4,000 share each or \$12,000 in total in the year ended 30 June 2013.

(2) During the year the professional fees were incurred in respect of:

- Jessica Domschenz has provides professional forester services since May 2013 and was appointed as CEO on 12 July 2013. During the year \$6,200 of processional services were invoices by Forestech Management Pty Ltd, of which Jessica Domschenz is an employee.
- Graham Seppelt was appointed as Company Secretary on 15 April 2013 and resigned on 14 June 2013, Company Secretarial fees charges in the year amounted to \$8,568 (\$7,789 excluding GST).
- Victoria Allinson was appointed as CFO and Company Secretary on 14 May 2013. During the year the professional accounting and company secretarial fees of \$7,867 (including GST) were invoiced by Allinson Accounting Solutions Pty Ltd, of which Victoria Allinson is Managing Director and shareholder. During the year, \$1,000 of invoiced fees were paid in shares, the remaining \$6,867 were payable at 30 June 2013.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

28. Key management personnel (continued)

(b) Option holdings of key management personnel

There are no option holdings for the Group.

(c) Shareholdings of key management personnel (Consolidated)

| | Beginning of period | Granted as remuneration | Options exercised | Net change other | End of period |
|---------------------------------------|---------------------|-------------------------|-------------------|--------------------|--------------------|
| 30 June 2013 | | | | | |
| Directors | | | | | |
| Paul McKenzie ^{(1) (5)} | 2,166,667 | 6,944,444 | - | 18,808,670 | 27,919,781 |
| Frederick Woollard ^{(2) (5)} | 17,678,287 | 4,629,630 | - | 261,727,190 | 284,035,107 |
| John Sergeant ^{(3) (5)} | 1,213,323 | 3,652,968 | - | 12,033,404 | 16,899,695 |
| Ian Olson ⁽⁵⁾ | 771,622 | 925,926 | - | - | 1,697,548 |
| Executives | | | | | |
| John Ipsen ⁽⁶⁾ | 2,500,000 | 100,000 | - | - | 2,600,000 |
| Victoria Allinson ⁽⁴⁾ | - | 333,333 | - | - | 333,333 |
| Scott Wallace ⁽⁶⁾ | 600,000 | 100,000 | - | - | 700,000 |
| | <u>24,929,899</u> | <u>16,686,301</u> | <u>-</u> | <u>292,569,264</u> | <u>334,185,464</u> |
| 30 June 2012 | | | | | |
| Directors | | | | | |
| Paul McKenzie ⁽¹⁾ | 500,000 | - | - | 1,666,667 | 2,166,667 |
| Ian Olson | 643,017 | - | - | 128,605 | 771,622 |
| Fred Woollard ⁽²⁾ | 11,736,347 | - | - | 5,941,940 | 17,678,287 |
| Executives | | | | | |
| John Ipsen | 2,500,000 | - | - | - | 2,500,000 |
| Scott Wallace | 600,000 | - | - | - | 600,000 |
| | <u>15,979,364</u> | <u>-</u> | <u>-</u> | <u>7,737,212</u> | <u>23,716,576</u> |

(1) 20,975,337 (2012: 2,166,667) 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 6,944,444 ordinary shares were issued to Agrarian Consulting Pty Ltd <Paul McKenzie family A/C> of which Paul McKenzie is the Managing Director.

(2) 283,984,107 (2012: 771,622) of these shares are held by JP Morgan Nominees as custodian of the Samuel Terry Absolute Return Fund. Mr Woollard is Managing Director of Samuel Terry as trustee of the Samuel Terry Absolute Return Fund.

(3) John Sergeant's 16,899,695 shares are held via:

- a. Direct interest 5,342,968;
- b. Sergeant Family Trust 4,107,977 (2012: 535,823). Mr Sergeant has effective control of his family trust.
- c. Sergeant Family Superannuation Fund 5,758,750 (2012: 677,500). Mr Sergeant has effective control of his self-managed superannuation fund.
- d. Ms J Sergeant 1,690,000. Ms Sergeant is Mr Sergeant's wife.

(4) These shares were issued to Allinson Family Trust, of which Victoria Allinson is a trustee and beneficiary. The shares were in payment of professional fees invoices by Allinson Accounting Solutions Pty Ltd.

(5) During the year 16,152,968 of shares were issued to Directors, for further details refer to Note 28(a).

(6) During the prior year the executives John Ipsen and Scott Wallace were granted 100,000 shares each as part of their remuneration package for 2011/12. These were issued on 24 July 2012.

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

There have been no other transactions with directors or executives.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

29. 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:

| Name | Country of incorporation | Percentage of equity interest held by the consolidated entity | |
|--|--------------------------|---|-----------|
| | | 2013 % | 2012 % |
| APR Unit Trust | Australia | 100 | 100 |
| RuralAus Plantation Management Pty Ltd | Australia | 100 | 100 |
| RuralAus Finance Limited | Australia | 100 | 100 |
| RuralAus Landholdings Limited | Australia | 100 | 100 |
| RuralAus Plantation Timber Pty Ltd | Australia | 100 | 100 |

Key management personnel

Details relating to key management personnel, including remuneration paid and securities held, are included in Note 28.

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.

30. Parent Entity disclosures

Information relating to Kangaroo Island Plantation Timbers Ltd

| | 2013 \$'000 | 2012 \$'000 |
|---------------------------------------|----------------|----------------|
| Current assets | 416 | 706 |
| Non-current assets | 4,778 | 2,224 |
| Intercompany loan | 4,312 | 4,094 |
| Total assets | 9,506 | 7,024 |
| Current liabilities | 164 | 286 |
| Total liabilities | 164 | 286 |
| Total net assets | 9,342 | 6,738 |
| Issued capital | 11,450 | 9,898 |
| Option reserve | 272 | 272 |
| Property, plant and equipment reserve | 843 | - |
| Retained earnings | (3,223) | (3,432) |
| Total shareholders' equity | 9,342 | 6,738 |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

30. Parent Entity disclosures (continued)

| | 2013 \$'000 | 2012 \$'000 |
|--|----------------|----------------|
| Profit/(loss) of the parent entity | 209 | (823) |
| Net fair value gain in property, plant and equipment | 843 | - |
| Total comprehensive income/(loss) | 1,052 | (823) |

Parent entity guarantees, commitments and contingent liabilities

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

31. Share-based Payment

Recognised share-based payment expenses

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

| | Consolidated | |
|--|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 |
| Expense arising from equity-settled share-based payment transactions | 106 | 204 |
| Total expense from share-based payment transactions | 106 | 204 |

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

- During the year the following \$71,803 of directors remuneration was paid in shares:
 - On 28 June 2013 6,944,444 ordinary shares were issued in lieu of \$31,250 (\$28,409 net of GST) Directors Fees, to Aminac Pty Ltd ATF Agrarian Management S/F A/C of which Paul McKenzie is the Managing Director.
 - On 28 June 2013 4,629,630 ordinary shares were issued in lieu of \$20,833 (\$18,939 net of GST) 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.
 - On 28 June 2013 3,652,968 ordinary shares were issued in lieu of \$16,667 Directors Fees. John Sergeant was appointed a director on 2 February 2013.
 - On 28 June 2013 925,926 ordinary shares were issued in lieu of \$4,167 (\$3,788 net of GST) Directors Fees. Ian Olson resigned as a director on 26 February 2013.
 - During the prior year 100,000 shares were granted on 30 June 2012 to Ian Olson. These shares were not issued until 24 July 2012. At 30 June 2012 the shares were valued at \$0.06, however the value was increased to \$0.10 on issue resulting in \$6,000 being charged in 2012 and \$4,000 in 2013.
- \$2,000 were paid to employees during the year under the Executive & Employee Share Loan Scheme (EESP). Under the EESP two employees were issued 333,333 share each.
- \$1,000 of invoiced fees were paid in 333,333 shares to Allinson Accounting Solutions in lieu of professional fees

Notes to the Consolidated Financial Statements

For the year ended 30 June 2013

32. Commitments

Leasing commitments

Operating lease commitments – Group as lessee

The Group previously entered into commercial property leases for four properties at Bremer Bay. These leases have remaining terms of between two and four years. During the year these leases were terminated as part of the change in Group's strategic direction, as a result there are no such commitments at 30 June 2013.

The Group financed a motor vehicle, wheel loader and fuel tank at the sawmill in the previous year. All agreements are repayable over four years from commencement. The amounts are show as liabilities under Note 19.

Future minimum rentals payable under these leases as at 30 June 2013 are as follows:

| | Consolidated | |
|---|---------------------|--------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Within one year | - | 480 |
| After one year but not more than five years | - | 874 |
| After more than five years | - | - |
| Total minimum lease payments | - | 1,354 |

Operating lease commitments – Group as lessor

The Group previously entered into commercial property leases on its investment properties in relation to growers under the five managed investment schemes that the Group manages. These leases have remaining terms of between three and 14 years.

During the year these leases were terminated as part of the change in Group's strategic direction, as a result there are no such commitments at 30 June 2013.

Future minimum rentals receivable under these operating leases as at 30 June 2013 are as follows:

| | Consolidated | |
|---|---------------------|--------------|
| | 2013 | 2012 |
| | \$'000 | \$'000 |
| Within one year | - | 308 |
| After one year but not more than five years | - | 838 |
| After more than five years | - | 290 |
| Total minimum lease payments | - | 1,436 |

There are no other commitments at 30 June 2013.

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 2013 are in accordance with the Corporations Act 2001, including:
 - Giving a true and fair view of its financial position as at 30 June 2013 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
 - Subject to Note 2(b) there are reasonable grounds to believe that the consolidated entity 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 2013.

On behalf of the Board



Chairman

Dated this 30th day of September 2013

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

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 2013, 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 are 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.

Grant Thornton Audit Pty Ltd ACN 130 913 594
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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.

Material uncertainty regarding going concern

Without qualifying our opinion, we draw attention to Note 2(b) in the financial report which indicates that the consolidated entity incurred a net loss of \$2,154,000 and total cash outflows from operating and financing activities of \$2,207,000 during the year ended 30 June 2013. These conditions, along with other matters as set forth in Note 2(b), 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.

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 2013 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.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



S K Edwards
Director – Audit & Assurance

Adelaide, 30 September 2013

Supplementary Information for Investors as at 20 September 2013

The information contained below is to be read in conjunction with the annual report of Kangaroo Island Plantation Timbers Ltd dated 30 June 2013. The share are stated on a post-consolidation basis.

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 | 733,926 | 63.07 |
| 2. | AMINAC PTY LTD <AGRARIAN MANAGEMENT S/F A/C> | 41,951 | 3.60 |
| 3. | CONSTABLE INVESTMENTS GROUP LIMITED | 35,722 | 3.07 |
| 4. | MR GEORGE KAMEL TAKLA | 34,175 | 2.94 |
| 5. | MR GRAHAM IAN HOLDAWAY + MRS KRISTINA MARY IRVING HOLDAWAY <G & K SUPER FUND A/C> | 33,700 | 2.90 |
| 6. | A&M SALTER NOMINEES PTY LTD <ALF SALTER & ASSOC S/F A/C> | 24,080 | 2.07 |
| 7. | UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 20,400 | 1.75 |
| 8. | LOCOPE PTY LTD | 20,000 | 1.72 |
| 9. | KELIRI PTY LTD <KEN RICHARDS FAMILY S/F A/C> | 17,000 | 1.46 |
| 10. | MAJ PTY LTD <WALLACE SUPER FUND A/C> | 15,300 | 1.31 |
| 11. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 14,000 | 1.20 |
| 12. | AGRARIAN CONSULTING PTY LTD <PAUL MCKENZIE FAMILY A/C> | 13,889 | 1.19 |
| 13. | MR JOHN DAVID SERGEANT <SERGEANT FAMILY S/F A/C> | 11,518 | 0.99 |
| 14. | MR DAVID HALSTEAD BREWSTER + MS CHRISTINE EVELYN NEWMAN | 10,752 | 0.92 |
| 15. | MR JOHN DAVID SERGEANT | 10,686 | 0.92 |
| 16. | OMNIVEST PTY LTD <THE CLEGG SUPER FUND A/C> | 10,000 | 0.86 |
| 17. | MR JOHN DAVID SERGEANT <SERGEANT FAMILY A/C> | 8,216 | 0.71 |
| 18. | GADBY PTY LTD <GADBY SUPER A/C> | 8,160 | 0.70 |
| 19. | MR TIMOTHY EDWARD HOBILL COLE + MRS FIONA CAROLINE HOBILL COLE <VAMEKE SUPER FUND A/C> | 7,514 | 0.65 |
| 20. | MS CAROL LESLEY GEAR <GEAR INVESTMENT A/C> | 5,586 | 0.48 |
| Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL) | | 1,076,575 | 92.51 |
| Total Remaining Holders Balance | | 87,136 | 7.49 |
| Total | | 1,163,711 | 100.00 |

Supplementary Information for Investors as at 20 September 2013 (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 | 558,813 | 48.02 | Fred Woollard, Tim Cole |
| Supervised Investments Limited | JP Morgan Nominees | 175,113 | 15.05 | Ida Constable |
| | HSBC Custody Nominees | 14,000 | 1.20 | Ida Constable |
| | | | 15.25 | |
| Paul McKenzie | Aminac Pty Ltd <Ararian Management S/F A/C> | 41,951 | 3.60 | |
| | Agrarian Consulting Pty Ltd <Paul McKenzie Family A/C> | 13,889 | 1.19 | |
| | | | 4.79 | |

Distribution of shareholder numbers

| Number of shares held | Number of shareholders |
|-----------------------|------------------------|
| 1 – 1,000 | 404 |
| 1,001, - 5,000 | 19 |
| 5,001 – 10,000 | 14 |
| 10,001 – 100,000 | 1 |
| More than 100,001 | 0 |

Number of shareholders with less than a marketable parcel of securities

As at 20 September 2013, there were a total of 376 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 shares held in escrow.