Kangaroo Island Plantation Timbers

Annual Financial Report

ABN 19 091 247 166

For the year ended

30 June 2017

Corporate Information

Directors
Paul Lawrence McKenzie (Chairman)
John David Sergeant (Managing Director)
Shauna Marie Black (Executive Director)
Graham Ian Holdaway (Executive Director)
Gregory Colin Boulton (Non-Executive Director)

Company Secretary
Victoria Marie Allinson

Registered Office
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147 Pirie Street, Adelaide, South Australia 5000
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Principal Places of Business
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Adelaide, South Australia 5000

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Kingscote, South Australia 5223

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

Bankers
Commonwealth Bank of Australia Limited
CBA Specialised Agribusiness Solutions WA SA NT
300 Murray Street
Perth, Western Australia 6000

Auditor
Grant Thornton Audit Pty Ltd
Level 3, 170 Frome Street
Adelaide, South Australia 5000

Share Register
Computershare Investor Services Pty Ltd
Level 5, 115 Grenfell St
Adelaide, South Australia 5000
Telephone: (08) 8236 2300

Website
www.kipt.com.au

Australian Securities Exchange Code
KPT

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Directors' Report

Your directors submit their report for the year ended 30 June 2017.

Directors

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

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

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

Names, qualifications, experience and special responsibilities

Paul McKenzie (appointed 29 April 2005)
BSc(Agric), BCom, FAICD, AIAST
Non-Executive Chair

Board member since April 2005, appointed Chair July 2009. Paul is the Managing Partner of Agrarian Management, a leading Western Australian agriculture consultancy with offices in Geraldton, Perth and Esperance. Paul has 25 years' experience in agribusiness, management, finance and primary production. He is a past President of the Australian Association of Agricultural Consultants (WA) Inc and a Ministerial Appointee to various agribusiness review and advisory panels. Paul was the founding Chairman of Gage Roads Brewing Co (ASX: GRB) from concept to private company to ASX listing in December 2006, and resigned in May 2008. In June 2008, Paul was appointed director of Rural Financial Counselling Service (WA) ("RFCS"). RFCS administers a federal government funded program in WA under the Department of Agriculture, Fisheries and Forestry.

Paul was appointed Chair of the CRC for Honey Bee Products Ltd in July 2017, and is Ferrier Hodgson's WA Agribusiness Specialist for advisory, reconstruction and recovery appointments.

Directors' Report

John Sergeant (appointed 2 March 2013)
BSc, BA(Hons I), FAMSRS, GAICD
Managing Director

Board member since March 2013, Managing Director since January 2015.

Mr Sergeant holds a BSc in Biological Sciences and a BA in Psychology from the University of Sydney, where he was, for a number of years, a lecturer in the Business School, teaching at the postgraduate level.

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

Prior to joining the Company, he has managed a number of successful consultancy businesses, served on the boards of Australian and multinational professional services firms. From 2003 to 2014, Mr Sergeant was 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 a non-executive director of one other listed public company: Asset Resolution Ltd (NSX: ASS).

Shauna Black (appointed 17 March 2015)
Executive Director

Board member since March 2015 and Executive Director of Community Engagement since May 2017.

Ms Black has been a well-known and respected resident of Kangaroo Island for 12 years and has a 30-year career in media. For almost eight years, she was the Managing Editor of the Island's newspaper, *The Islander*, having moved from Adelaide after a 15-year stint at *The Advertiser*, including as its first personal finance editor and superannuation writer.

Ms Black has been a member of the board of Media Super and is active in a number of local associations. She is the proprietor of Black Stump Media, a Kangaroo Island business specialising in media and project management services. In this capacity, she is the Honorary Secretary of Business KI, which is the equivalent of the Island's chamber of commerce.

Ms Black is the Manager of the Kangaroo Island Industry and Brand Alliance. Ms Black acted as Flood Recovery Co-ordinator for Kangaroo Island Council, following the severe flood damage sustained in June 2013 in the MacGillivray/Haines area of KI.

Directors' Report

Graham Holdaway (appointed 17 March 2015)
BCA, Dip Accy, ACA, MAICD
Executive Director

Board member since March 2015 and Executive Director of Operations since April 2017.

Mr Holdaway is an experienced non-executive director, having served on boards of natural resources companies with operations in Australia, Indonesia, Papua New Guinea and the United Kingdom.

He is Chartered Accountant and a former partner of KPMG, with a particular interest in the development of resources-related infrastructure.

Mr Holdaway is from a farming background and is a tree-grower in his own right, with eucalypt and radiata pine plantations in Victoria and on Kangaroo Island, South Australia. Graham is based in regional Victoria.

He is currently a non-executive director of one other listed public company: Asset Resolution Ltd (NSX: ASS).

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

Gregory Boulton AM (Appointed 1 November 2016)
BA(Accounting), FCA, FCPA, FAICD
Independent Non-Executive Director

Board member since November 2016.

Mr Boulton is a leading Adelaide Company Director with 25 years' experience in both public and private companies. He is the Chair of Southern Gold Ltd (ASX: SAU) and Chair of SA Pine Pty Ltd. He is also a Director of Statewide Superannuation Fund and the Cancer Council of South Australia.

His experience relevant to KIPT's operations includes Governance, Logistics, Timber, Resources and Finance.

Mr Boulton is a Fellow of the Institute of Chartered Accountants, CPA Australia and the Australian Institute of Company Directors.

He was awarded an AM – Member in the General Division of the Order of Australia – for his services to AFL Football administration, to the Community of South Australia and to Business.

Directors' Report

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

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

Interest in ordinary Shares

	Opening interest at 1 July 2016[6]	Net changes during the year[6]	Performance Right Shares issued[6]	Share Split[7]	Closing interest at date of report
Paul McKenzie[1]	148,360	304,906	30,000	2,039,094	2,522,360
John Sergeant[2]	107,040	555,257	90,000	2,252,673	3,004,970
Graham Holdaway[3]	37,367	29,243	30,000	770,175	866,785
Shauna Black[4]	6,667	13,000	30,000	402,003	451,670
Gregory Boulton[5]	-	7,623	-	68,607	76,230
Total	**299,434**	**910,029**	**180,000**	**5,532,552**	**6,922,015**

Post-share split	Opening interest at 1 July 2016[6]	Net changes during the year	Performance Right Shares issued	Closing interest at date of report
Non-executives				
Paul McKenzie[1]	1,483,600	738,760	300,000	2,522,360
John Sergeant[2]	1,070,400	1,034,570	900,000	3,004,970
Graham Holdaway[3]	373,670	193,115	300,000	866,785
Shauna Black[4]	66,670	85,000	300,000	451,670
Gregory Boulton[5]	-	76,230	-	76,230
Total	**2,994,340**	**2,127,675**	**1,800,000**	**6,922,015**

The details of directors' shares on a post-share split basis is as follows:

(1) Paul McKenzie's Shares comprise:
  a. 2,000,000 held by Aminac Pty Ltd ATF Agrarian Management S/F A/C of which Mr McKenzie is the managing Director; and
  b. 522,360 held by Alke Pty Ltd (The McKenzie Family Trust No 2 A/C) of which Mr McKenzie is the managing Director.

(2) John Sergeant's Shares comprise:
  a. 2,099,664 held by Phalaenopsis Pty Ltd ATF Sergeant Family Trust of which Mr Sergeant has effective control;
  b. 418,230 Direct interest;
  c. 474,366 held by Sergeant Family Superannuation Fund of which Mr Sergeant has effective control; and
  d. 12,710 held by Ms J Sergeant; Ms Sergeant is Mr Sergeant's wife.

(3) Graham Holdaway's Shares comprise:
  a. 401,015 held by Mr Graham Ian Holdaway and Mrs Kristina Mary Irving Holdaway <G & K Super Fund A/C> of which Mr Holdaway has effective control; and
  b. 465,770 held by Holdaway & Holdaway Pty Ltd of which Mr Holdaway has effective control, being a director and shareholder.

(4) Shauna Black's Shares comprise:
  a. A direct interest in 66,670 Shares; and
  b. 385,000 held by Black Stump Regional Pty Ltd ATF the Taybric Family Trust of which Ms Black has effective control.

(5) Gregory Boulton's 76,230 Shares are held by G Boulton Pty Ltd ATF <Greg Boulton Family S F A/C>.

(6) Shares are shown as both post and pre share split. Refer to post-share split table for details of shares on a post share split basis.

(7) Share split of 10 Shares for every 1 share held occurred on 8 March 2017.

Directors' Report

Interest in Performance Rights

The Performance Rights Plan ("Plan") and the corresponding Rights dated 24 February 2017 were approved by Shareholders at the 2017 General Meeting ("GM"). At 30 June 2017, the performance conditions had not been met. Refer to Remuneration Report for further details.

CFO and Company Secretary

Victoria Allinson (appointed 14 May 2013)

FCCA, AGIA

Vicky is a Fellow of The Association of Certified Chartered Accountants and a member of the Governance Institute of Australia.

Vicky has over 24 years' accounting and auditing experience, including senior accounting positions in a number of listed companies and was an audit manager for Deloitte Touche Tohmatsu. In addition, Vicky has gained professional experience while living and working in both Australia and the United Kingdom.

Vicky is current Chief Financial Officer ("CFO") for a further two listed companies Asset Resolution Limited (NSX: ASS) and Marmota Limited (ASX: MEU). Her previous experience has included being 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 as well as a number of unlisted companies. In her role as Company Secretary, Vicky has assisted a number of companies to list on the ASX.

Vicky has experience in all sizes of business from sole traders to large companies, in a wide variety of business sectors. She is based in Adelaide, South Australia.

Dividends

The directors have resolved not to declare a dividend for the year ended 30 June 2017. No dividends were paid during the previous year.

Principal activities

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

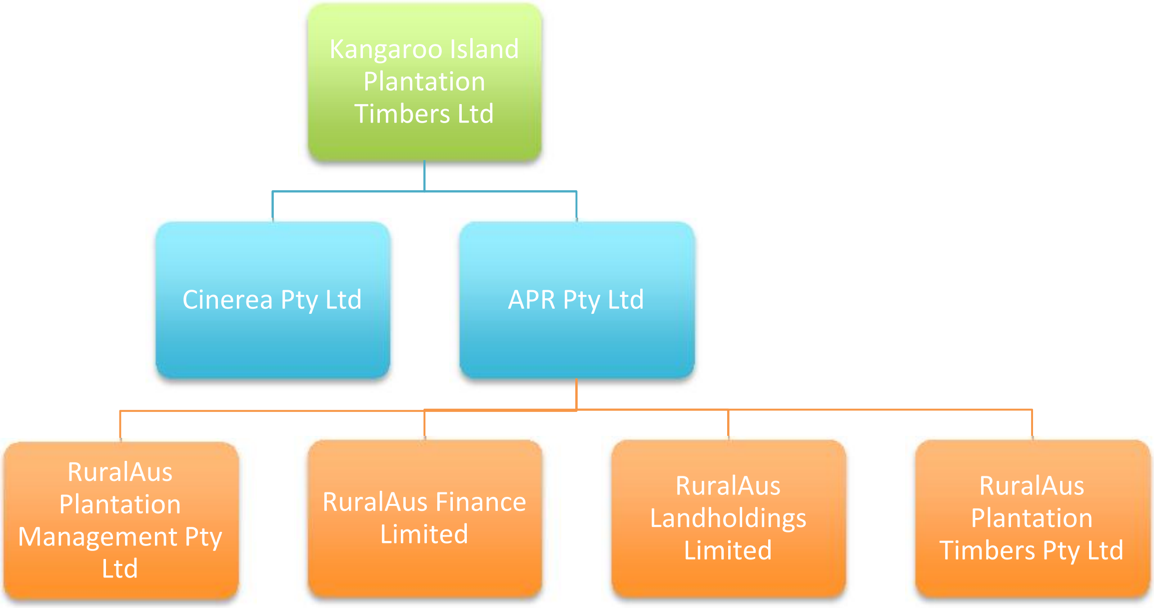
There have been no significant changes in the nature of activities during the year.

Corporate information

Corporate structure

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

Directors' Report



Employees

The consolidated entity employed 2 employees and 3 Executive Directors at 30 June 2017 (2016: 3 employees and 1 Executive Director).

Operating and financial review

Group overview

Kangaroo Island Plantation Timbers Ltd and its 100% subsidiaries ("Group") have had the most active and transformative year in its history. Considerable progress has been made towards monetising the Group's timber assets, including:

MoU with Mitsui Bussan Woodchip Oceania

In January 2017, the Company entered into an exclusive marketing arrangement with Mitsui & Co's Australian timber subsidiary, covering all of the timber production from the KI Estate.

CBA funding agreement

A funding facility was agreed in March 2017: $25 million to help expand the portfolio of land and timber assets and $30 million construction funding, being 100% of the anticipated cost of the proposed Smith Bay Wharf, along with an additional $2.1m for equipment finance and working capital.

Continued Development Assessment progress for Smith Bay wharf

In February 2017, Deputy Premier of South Australia and Minister for Planning, the Hon. John Rau SC MP, declared that the Company's Smith Bay wharf proposal will be assessed under the major projects pathway designated in s.46 of the South Australian Development Act 1993.

In June 2017, the independent Development Assessment Commission of South Australia released its Environmental Impact Statement (EIS) guidelines, in which there were no unexpected requirements.

Directors' Report

Agreement and completion of the purchase of the 19,000 ha FIT Estate on Kangaroo Island

The transaction was agreed in October 2016 and completed on 28 April 2017, funded by equity and debt facility, thereby removing any possibility of a rival wharf proposal. This transaction resulted in a massive expansion and rebalancing of the timber estate, on very favourable terms. The FIT estate was acquired for $58 million (including acquisition costs) and has since been independently valued at $82 million.

Agreement to purchase a suitable floating pontoon

This purchase effectively locked in a key component of the proposed wharf substantially reducing the construction cost risk and potentially reducing the construction time following approval.

Substantial progress in the compilation of an environmental impact study

While compiling the EIS remains a significant task, the majority of component studies were in place or underway when the guidelines were issued on 30 June 2017. The Group is committed to working with the South Australia Government to ensure that the benefits of the development to the community are maximised, and that any negative effects are minimised and, where possible, offset. With the assistance of the South Australia Government, the Group will seek to ensure that development consent is secured in a timely manner, with reasonable conditions. The Group is not seeking any direct financial assistance from the South Australia Government.

Completed an inventory of standing timber

As a result of work undertaken in the financial year, the Group now has accurate measurements of the amount and quality of timber on its expanded estate and on those KI plantations belonging to private individuals. Growth rates can be inferred from these measurements. Moreover, the Group elected in its Interim 2016 Report to change its policy and agreed to value its standing timber on the basis that it is now, in the Board's opinion, highly probable that this value can be realised.

Results of operations

Revenue for the year increased by $100,000 from $85,000 in the prior year to $185,000 in the current year, while other income decreased by $89,000 from $100,000 in the prior year to $11,000 in the current year.

During the period, the change in fair value of biological assets amounted to $55,711,000 (2016: $nil) and the gain on sale of property, plant and equipment amounted to $11,000 (2016: loss $34,000).

Net comprehensive income for the period was $36,313,000. This is a $39,009,000 increase from last year's $2,696,000 loss. The increase is primarily due to:

- biological assets being standing timber increase in fair value of $55,711,000. In the prior year, the standing timber had been valued at $nil. However, given significant developments concerning the Group's proposal to construct a deep-water wharf, a discounted value has been recognised;

offset by

- tax expenses, primarily relating to the deferred tax on the revalued biological and forestry land assets increased by $13,757,000 to $13,699,000;
- wharf development costs increased by $660,000 to $1,027,000;
- director performance rights increased by $591,000 to $2,214,000;
- professional fees and legal increased by $119,000 to $327,000;
- finance costs incurred of $278,000;
- employee and directors' benefits excluding performance rights increased by $223,000 to $608,000; and
- forestry expenses increased by $165,000 to $475,000.

Directors' Report

Corporate Operations

Share issues

During the year, the Company successfully completed the following share issues:

- 6 December 2016: completed a fully-underwritten 1 for 3.7 pro rata non-renounceable accelerated entitlement offer and raised $12.8 million at $2.50 per post-split ordinary share;
- 24 April 2017: Institutional Placement was successfully completed to raise $12.1 million at $2.00 per post-split ordinary share; and
- 11 May 2017: completed a fully underwritten 4 for 9 pro rata non-renounceable accelerated entitlement offer to raise approximately $21.4 million at $2.00 per post-split ordinary share.

Commonwealth Bank of Australia ("CBA") loan facilities

The Company has a $57,100,000 facility with the CBA of which $25,000,000 is drawn down and $30,000,000 is available to fund Wharf Construction once approval is obtained. In addition further CBA asset finance is available.

Other Corporate matters

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

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

Performance indicators

	2017 $'000	2016 $'000	2015 $'000	2014 $'000
Revenue from ordinary activities from continuing operations	**185**	85	100	55
Revenue from ordinary activities from continuing and discontinued operations	**185**	85	100	55
Profit/(loss) from ordinary activities	**36,086**	(2,831)	(966)	(1,231)
Profit/(loss) from discontinued operations	**-**	-	-	-
Profit/(loss attributable to members for the period	**36,086**	(2,831)	(966)	(1,231)
Other comprehensive income	**227**	135	-	240
Total comprehensive profit/(loss) after tax	**36,313**	(2,696)	(966)	(991)

	2017	2016	2015	2014
Basic earnings per share				
Post-share split	**148 cents**	(17) cents	(6) cents	(10) cents
Pre-share split	**1,478 cents**	(166) cents	(58) cents	(100) cents
Net tangible asset backing per security:				
Post-share split	**233 cents**	73 cents	79 cents	86 cents
Pre-share split	**2,326 cents**	731 cents	793 cents	861 cents

Directors' Report

Significant changes in the state of affairs

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

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

Significant events after balance date

There have been no significant events after balance date.

Likely developments

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

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

Diversity Report

Introduction

The following is the Diversity Report for the financial year ended 30 June 2017 for Kangaroo Island Plantation Timbers Ltd ("the Company") prepared for the purposes of the Company's Annual Report for the year ended 30 June 2017.

Diversity Policy

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

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

Responsibility

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

Current Position

As at 30 June 2017 there is an aggregate of 9 staff including Directors, employees and contractors (full and part time) in the Company. Of the aggregate 3 are female (including a non-Executive Director and the Company Secretary/Chief Financial Officer), 1 is of different ethnic or cultural background, and 1 is of mature age. Consequently, it could be said that the Company is already harnessing the benefits of a diverse workforce. A number of diversity objectives were not implemented by the Group at this stage given its size and low staff numbers. These are set out in the table below.

Directors' Report

Diversity Report (continued)

Diversity Strategy

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

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

Table 1

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

Notes:

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

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

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

Directors' Report

Diversity Report (continued)

Board Skills

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

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

Diversity at Board Level and Generally

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

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

Compliance

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

Environmental regulation and performance

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

Indemnification and insurance of directors and officers

During the financial year the controlled entity, on behalf of the Group, paid insurance premiums in respect of directors' and officers' 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 on 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' Report

Directors' meetings

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

	Number of Directors Meetings Held while in office	Directors Meetings Attended	Number of Audit & Risk Meetings Held while in office	Audit & Risk Meetings Attended
Paul McKenzie	18	18	3	3
John Sergeant(1)	18	18	n/a	n/a
Shauna Black(1) (3)	18	18	3	3
Graham Holdaway(1)(2)	18	18	3	3
Gregory Boulton(4)	13	13	2	2

(1) Executive Directors attends Audit and Risk Committee meetings by invitation.
(2) Audit and Risk Committee Chair until 28 February 2017 and an independent Director until appointed as an Executive Director on 1 April 2017.
(3) Independent Director until appointed as an Executive Director in 1 May 2017
(4) Appointed on 1 November 2016 and appointed as Audit and Risk Committee Chair on 28 February 2017.

Committee membership

As at the date of this report, the Company had an Audit and Risk Committee of the Board of Directors. Mr Boulton was the Independent Chair from 28 February 2017 (previously Mr Holdaway), and half of the members are independent non-executive directors. the directors have considered that the committee is adequate for the Company's current circumstances.

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

Rounding

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

Auditor independence and non-audit services

The directors have received the auditor's independence declaration, which is included on page 29 of this report. The declaration forms part of the Directors' report.

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

Non-Audit Services

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

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

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

Directors' Report

Auditor independence and non-audit services (continued)

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

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

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

	Consolidated	
	2017	2016
	$	$
An audit or review of the financial report of the entity and any other entity in the consolidated entity		
Grant Thornton	**53,000**	34,000
Taxation services Grant Thornton	**13,050**	10,318
	66,050	44,318

Remuneration report (audited)

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

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

Shareholders AGM votes on Remuneration Report

Kangaroo Island Plantation Timbers Ltd received 92% of 'yes' proxy votes and the Remuneration Report for the financial year ending 30 June 2016 was adopted unanimously on a show of hands. The Company received 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 March 2013)	Managing Director (since 1 January 2015)
Shauna Black (appointed 17 March 2015)	Executive Director (since 1 May 2017)
Graham Holdaway (appointed 17 March 2015)	Executive Director (since 1 April 2017)
Gregory Boulton (appointed 1 November 2016)	Independent Non-executive Director

Executives

Victoria Allinson (appointed 14 May 2013)	Company Secretary, Chief Financial Officer
Peter Lockett (appointed 8 May 2017)	Approvals Manager

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

Remuneration committee

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

Directors' Report

Remuneration report (audited) (continued)

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

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

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

Remuneration philosophy and structure

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

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

A review of the amount of remuneration has been conducted in the period of this annual report. The Board is of the opinion that remuneration should only be changed once the Group's strategic plans are further developed. The Shareholders approved an increase in the total Non-Executive Remuneration cap to $400,000 at the 2016 AGM. During the year, the Company's senior management requirements increased as the Company progresses towards being operational:

- Graham Holdaway, who had been a non-executive director of the Company since March 2015, worked in an executive capacity on a full time basis from 1 April 2017 on a range of operational issues.
- Shauna Black, who had also been a director of the Company since March 2015, agreed to work in an executive capacity on a part time basis from 1 May 2017 in a media, environment and community engagement role.

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

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

Performance is reviewed on an annual basis; the last review was undertaken in April 2017 prior to the appointment of the new Executive Directors.

Statutory performance indicators

The following table shows the key statutory performance indicators of the Group for the past 5 years, all figures have been adjusted for the 10:1 share split:

Post-share split	Net tangible assets per share	Earnings per share	Share price at 30 June
2017	$2.33	$1.48	$2.03
2016	$0.73	($0.17)	$1.60
2015	$0.79	($0.06)	$0.74
2014	$0.86	($0.10)	$0.30
2013	$1.23	($0.10)	$0.20

The indicators used to determine remuneration are not necessarily consistent with the measures used to determine the KMPs remuneration, as a result there may not be a direct correlation between the key statutory performance measures set out above and the remuneration rewarded.

Directors' Report

Remuneration report (audited) (continued)

Remuneration of Key Management Personnel ('KMP')

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

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

		Short term			Post employment	Long term	Share-based payment		
	Year	Salary & fees $	Cash bonus $	Other non-monetary benefits $	Super $	Long service leave $	Executive share & Rights Plan[8] $	Shares $	Total $
Non-Executive Directors (NED)									
P McKenzie[1]	**2017**	75,000	-	-	-	-	357,510	-	432,510
	2016	25,000	-	-	-	-	270,455	25,000	320,455
G Boulton[2]	**2017**	45,833	-	-	-	-	68,605	-	114,438
	2016	-	-	-	-	-	-	-	-
J Sergeant[3]	**2017**	57,078	-	-	5,422	-	-	-	62,500
	2016	21,153	-	-	3,847	-	-	25,000	50,000
S Black[4]	**2017**	57,078	-	-	5,422	-	357,510	-	420,010
	2016	21,153	-	-	3,847	-	270,455	25,000	320,455
G Holdaway[5]	**2017**	62,500	-	-	-	-	288,905	-	351,405
	2016	25,000	-	-	-	-	270,455	25,000	320,455
Total NED	**2017**	**297,489**	**-**	**-**	**10,844**	**-**	**1,072,530**	**-**	**1,380,863**
	2016	92,306	-	-	7,694	-	811,365	100,000	1,011,365
Executive Director									
J Sergeant[3]	**2017**	98,934	-	-	9,399	-	1,003,935	-	1,112,258
	2016	10,576	-	-	1,924	-	811,364	12,500	836,364
S Black[4]	**2017**	7,610	-	-	723	-	-	-	8,333
	2016	-	-	-	-	-	-	-	-
G Holdaway[5]	**2017**	28,539	-	-	2,711	-	137,209	-	168,459
	2016	-	-	-	-	-	-	-	-
Total Executives	**2017**	**135,083**	**-**	**-**	**12,833**	**-**	**1,141,134**	**-**	**1,289,050**
	2016	10,576	-	-	1,924	-	811,364	12,500	836,364
Other KMP									
P Lockett[6]	**2017**	33,961	-	-	-	-	-	7,397	41,358
	2016	**-**	**-**	**-**	**-**	**-**	**-**	-	-
V Allinson[7]	**2017**	150,216	-	-	-	-	-	-	150,216
	2016	80,740	-	-	-	-	-	2,000	82,740
TOTAL	**2017**	**616,749**	**-**	**-**	**23,677**	**-**	**2,213,665**	**7,397**	**2,861,488**
	2016	**183,622**	**-**	**-**	**9,618**	**-**	**1,622,729**	**114,500**	**1,930,469**

Directors' Report

Remuneration report (audited) (continued)

Notes:

(1) Mr McKenzie's remuneration comprise:

a. annual director's fees comprise of $100,000 Chairman's fee from 1 January 2017, previously $50,000 of which 50% was paid in shares until 30 June 2016.
b. 1/7ths of the performance rights pool of which Share Based payment have been valued at $357,510:
    i. Performance rights dated 24 February 2017 $68,605 (2016: $nil), subject to Shareholder approval at the 2017 AGM; and
    ii. Performance rights dated 18 January 2016 $288,905 (2016: $270,455).

During the prior year 3,125 ordinary shares were issued in lieu of $25,000 Non-Executive Director's Fees for the year ended 30 June 2016, to Aminac Pty Ltd ATF Agrarian Management S/F A/C of which Mr McKenzie is the Managing Director.

(2) Mr Boulton's remuneration comprise:

a. annual director's fees comprise of $50,000 Director's fee from 1 January 2017, previously $50,000 from date of appointment to 31 December 2017.
b. 1/7ths of the performance rights pool of which Share Based payment have been valued at $68,605:
    i. Performance rights dated 24 February 2017 $68,605 (2016: $nil), subject to Shareholder approval at the 2017 AGM; and
    ii. Performance rights dated 18 January 2016 $nil (2016: $nil).

(3) The Managing Director, Mr Sergeant's remuneration comprise:

a. annual director's fees comprise of $75,000 Director's fee from 1 January 2017 (previously $50,000) and $175,000 Executive fee from appointment on 1 May 2017; and
b. 2/7ths of the performance rights pool (prior Shareholder approval was obtained for 3/7ths of the performance rights pool, following the appointment of a new Executive Director 1/7ths of the performance rights have been reallocated to the new Executive, subject to Shareholder approval at the 2017 AGM. Share Based payment have been valued at $1,003,935:
    i. Performance rights dated 24 February 2017 $137,209 (2016: $nil), subject to Shareholder approval at the 2017 AGM; and
    ii. Performance rights dated 18 January 2016 $866,716 (2016: $811,364).

During the prior year under Mr Sergeant's letter of appointment date 25 May 2016, 50% of his fees totalling $37,500 were paid in shares for the year ended 30 June 2016:

iii. 3,125 of ordinary shares were issued in respect of $12,500 of executive director's fees for the year ending 30 June 2015, accrued in the prior year as security holders' approval at 2015 AGM;
iv. 3,125 of ordinary shares were issued in respect of $25,000 Non-Executive fees for the year ended 30 June 2016; and
v. 1,563 ordinary shares were issued in lieu of Executive fees for the year ending 30 June 2016 of $12,500.

(4) Ms Black was appointed an Executive Director (part-time) on 1 May 2017, her remuneration comprise:

a. annual director's fees comprise of $75,000 Director's fee from 1 January 2017 (previously $50,000) and $175,000 Executive fee from 1 May 2017 (previously $200,000 from 1 January 2017 to 30 April 2017 and $25,000 from 1 May 2015 to 31 December 2017).
b. 1/7ths of the performance rights pool of which Share Based payment have been valued at $357,510:
    i. Performance rights dated 24 February 2017 $68,605 (2016: $nil), subject to Shareholder approval at the 2017 AGM; and
    ii. Performance rights dated 18 January 2016 $288,905 (2016: $270,455).

Directors' Report

Remuneration report (audited) (continued)

During the prior year 6,667 ordinary shares have been issued to Ms Black as payment of 50% of the $50,000 non-executive Fees in accordance with the letter of appointment dated 25 May 2017. Share issued in the prior year:

iii. 3,542 of the ordinary shares related to the period from her appointment to 30 June 2015, Non-Executive Director's fees amounted to $14,167, accrued in the prior year as salary & fees, as subject to security holders' approval at 2015 AGM; and

iv. 3,125 of the shares related to non-executive fees for the year ended 30 June 2016 of $25,000.

(5) Mr Holdaway was appointed an Executive Director on 1 April 2017, remuneration comprise:

a. annual director's fees comprise of $75,000 Director's fee from 1 January 2017 (previously $50,000) and $125,000 Executive fee from appointment on 1 April 2017; and

b. 2/7ths of the performance rights pool (prior Shareholder approval was obtained for 1/7ths of the performance rights pool, following the appointment as an Executive Director 1/7ths of the performance rights have been reallocated from Mr Sergeant, subject to Shareholder approval at the 2017 AGM. Share Based payment have been valued at $426,114:

   i. Performance rights dated 24 February 2017 $137,209 (2016: $nil), subject to Shareholder approval at the 2017 AGM; and

   ii. Performance rights dated 18 January 2016 $288,905 (2016: $811,364).

During the prior year 6,667 ordinary shares have been issued to Mr Holdaway as payment of 50% of the $50,000 non-executive Fees in accordance with the letter of appointment dated 25 May 2017. Share issued in the prior year:

c. 3,542 of the ordinary shares related to the period from his appointment to 30 June 2015, Non-Executive Director's fees amounted to $14,167, accrued in the prior year as salary & fees, as subject to security holders' approval; and

d. 3,125 of ordinary shares were issued in respect of $25,000 non-executive fees for the year ended 30 June 2016.

(6) Peter Lockett was appointed as Approvals Manager on 8 May 2017. During the period since appointment $33,961 (2016: $nil) of professional services were invoiced by Seaview Corporate Services Pty Ltd, of which, Mr Lockett has effective control. During the period since appointment $7,397 (2016: $nil) of these services have been accrued and are payable in ordinary Shares.

(7) Victoria Allinson was appointed as CFO and Company Secretary on 14 May 2013. During the year, the professional accounting, administration and company secretarial fees of $150,216 (2016: $82,740) were invoiced by Allinson Accounting Solutions Pty Ltd, of which Victoria Allinson is Managing Director and shareholder. The services are provided by Ms Allinson and her two employees. During the year, $nil (2016: $2,000) of invoiced fees were paid in shares, the remaining $150,216 (2016: $80,740) were paid or payable.

(8) During the year, the Board announced Performance Rights dated 24 February 2017 that were approved by Shareholders at the 24 February 2017 General Meeting. The Rights have been valued based on AASB 2 *Share-based Payment*, further details are set out below.

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

Directors' Report

Remuneration report (audited) (continued)

Performance Rights Plan

	Year	Performance Rights dated 18 January 2016 $	Performance Rights dated 24 February 2017 $	Total Performance Rights $
Non-Executive Directors				
P McKenzie	**2017**	288,905	68,605	357,510
	2016	270,455	-	270,455
G Boulton	**2017**	-	68,605	68,605
	2016	-	-	-
Executive Directors				
J Sergeant	**2017**	866,727	137,208	1,003,925
	2016	811,364	-	811,364
S Black	**2017**	288,905	68,605	357,510
	2016	270,455	-	270,455
G Holdaway	**2017**	288,905	137,209	426,114
	2016	270,455	-	270,455
Total	**2017**	**1,733,432**	**480,232**	**2,213,664**
	2016	**1,622,729**	**-**	**1,622,729**

The Performance Rights Plan ("Plan") was approved by Shareholders on 5 October 2016. The terms of the Plan involve the issue of Shares that will rank equally with all other existing Shares in all respects including voting rights and entitlement to participate in dividends and in future rights and bonus issues.

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

The Plan was developed by the Board and their intentions were announced to the market on 18 January 2016.

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

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

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

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

Performance Rights dated 18 January 2016

At the 5 October 2016 Annual General Meeting Shareholders approved performance rights dated 18 January 2016, that are triggered by meeting the following two conditions:

Directors' Report

Remuneration report (audited) (continued)

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

Condition 2. the share price must be equal to or greater than the original VWAP threshold share price (as set out below) at the date the shares are issued.

A summary of the Performance Rights proposed is shown below:

20 Business Day VWAP	*Shares to be issued to Managing Director Number.*	*Shares to be issued per Non-Executive Director Number.*	*Total Shares to be issued Number.*	*Escrow period*
Post-share split				
$1.50 or above	350,000	116,670	700,010	n/a
$2.00 or above	300,000	100,000	600,000	n/a
$2.50 or above	250,000	83,330	499,990	12 months
Total	**900,000**	**300,000**	**1,800,000**	
Pre-share split				
$15.00 or above	35,000	11,667	70,001	n/a
$20.00 or above	30,000	10,000	60,000	n/a
$25.00 or above	25,000	8,333	49,999	12 months
Total	**90,000**	**30,000**	**180,000**	

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

On the 18 January 2016 the Company's share price was $1.26 (pre-split $12.60).

Since then all three 20-day VWAP share price Condition 1 hurdles have been met, resulting in the following 1,800,000 (pre-share split 180,000) performance rights being issued:

- John Sergeant rights:
  - On 30 May 2016 350,000 (pre-share split 35,000) shares;
  - On 1 August 2016 300,000 (pre-share split 30,000) shares; and
  - On 21 October 2016 250,000 (pre-share split 25,000) shares.
- Paul McKenzie rights:
  - On 30 May 2016 116,670 (pre-share split 11,667) shares;
  - On 1 August 2016 100,000 (pre-share split 10,000) shares; and
  - On 21 October 2016 83,330 (pre-share split 8,333) shares.
- Graham Holdaway rights:
  - On 30 May 2016 116,670 (pre-share split 11,667) shares;
  - On 1 August 2016 100,000 (pre-share split 10,000) shares; and
  - On 21 October 2016 83,333 (pre-share split 8,333) shares.
- Shauna Black rights:
  - On 30 May 2016 116,670 (pre-share split 11,667) shares;
  - On 1 August 2016 100,000 (pre-share split 10,000) shares; and
  - On 21 October 2016 83,333 (pre-share split 8,333) shares.

Directors' Report

Remuneration report (audited) (continued)

Valuation of Performance Rights dated 18 January 2016

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

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

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

The Directors do not believe that a Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights 18 January 2018. The performance rights have been valued using the share price at the grant date and applied a probability to each tranche. The valuation is set out in the table below.

20 Business Day VWAP	**Post-split Shares Number.**	**Share price at grant date**	**Probability**	**Valuation $**
$1.50 or above(1)	700,010	$1.92	100%	1,344,019
$2.00 or above	600,000	$1.92	98%	1,128,960
$2.50 or above	499,990	$1.92	92%	883,182
Total	**1,800,000**			**3,356,161**

(1) The vesting conditions had already been met at the date of Shareholder approval.

The valuation has been expensed over two financial periods as set out in the table below.

	AASB 2 valuation		
	Expenses recognised 30 June 2017 $	Expense recognised 30 June 2016 $	**Total valuation $**
Total	**1,733,432**	1,622,729	**3,356,161**

Performance Rights dated 24 February 2017

At the 24 February 2017 General Meeting, Shareholders approved performance rights dated 24 February 2017, triggered by meeting the following performance condition:

õ the volume-weighted average price (VWAP) of the Company's Shares exceeds the relevant price, based on the most recently-traded 1,000,000 shares.

Performance Rights dated 24 February 2017 expire on 23 February 2018.

Directors' Report

Remuneration report (audited) (continued)

A summary of the Performance Rights proposed is shown below:

20 Business Day VWAP	*Shares to be issued to J Sergeant & G Holdaway Number.*	*Shares to be issued to P McKenzie, S Black & G Boulton Number.*	*Total Shares to be issued to Directors Number.*	*Escrow period*
Post-share split				
$3.50 or above	107,140	53,570	374,990	12 months
$4.25 or above	85,720	42,860	300,020	12 months
$5.00 or above	64,280	32,140	224,980	12 months
Total	**257,140**	**128,570**	**899,990**	
Pre-share split				
$35.00 or above	10,714	5,357	37,499	12 months
$42.50 or above	8,572	4,286	30,002	12 months
$50.00 or above	6,428	3,214	22,498	12 months
Total	**25,714**	**12,857**	**89,999**	

On the 24 February 2017 the Company's share price was $2.33.

At the date of this report, none of the performance rights dated 24 February 2017 vesting conditions have been met and no performance rights have vested.

On 18 May 2017, the Company announced that following the appointment of Graham Holdaway as a full time Executive Director, 128,570 (post-share split) performance rights are to be reallocated from John Sergeant to Graham Holdaway, subject to Shareholder approval at the 2017 AGM.

Valuation of Performance Rights dated 24 February 2017

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

AASB 2 sets the valuation date (termed as Grant Date) as the date at which such a right has been approved, being the date of the General Meeting, 24 February 2017.

The Directors do not believe that a Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights 18 January 2018. The performance rights have been valued using the share price at the grant date and applied a probability to each tranche. The valuation is set out in the table below.

20 Business Day VWAP	**Shares Number.**	**Share price at grant date**	**Probability**	**Valuation $**
$3.50 or above	374,990	$2.33	55%	481,394
$4.25 or above	300,020	$2.33	14%	98,038
$5.00 or above	224,980	$2.33	1%	5,251
Total	**899,990**			**584,683**

Directors' Report

Remuneration report (audited) (continued)

The valuation has been expensed over two financial periods as set out in the table below.

	AASB 2 valuation		
	Expenses recognised 30 June 2017 $	Expense expected 30 June 2018 $	**Total valuation $**
Total	**480,232**	104,451	**584,683**

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 $400,000 pa, as approved by shareholders' at the 2016 AGM.

The non-executive directors are paid a set amount per year. They are not eligible for any additional payments, other than reimbursement of expenses incurred on behalf of the Group.

In the year ended 30 June 2017:

- non-executive fees amounted to $75,000 (prior to 1 January 2017: $50,000) for each director; and
- Non-executive chair fees amounted to $100,000 (prior to 1 January 2017: $50,000).

The directors have signed contracts setting out their obligations and remuneration.

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

Executive remuneration

Objective

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

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

Structure

The Company has reviewed its staffing requirements as part of the strategic restructure, resulting in two new Executive Directors, Graham Holdaway and Shauna Black and a new Executive consultant, Peter Lockett being appointed. The number of staff employed: five (2016: three) employees, including the Executive Directors, at the date of this report. Three (2016: two) employees are based on Kangaroo Island, including one Executive Director.

The Company's Chief Financial Officer ("CFO") Victoria Allinson and Approvals Manager, Peter Lockett 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
- Seaview Corporate Services Pty Ltd was engaged to provide the approval managerial services of Peter Lockett.

Directors' Report

Remuneration report (audited) (continued)

The Executive Directors signed an employment contract setting out their obligations and remuneration. In addition, the Executive Directors are entitled to Performance Rights under the Plan.

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 Executive Directors' remuneration comprises:

- The Managing Director, Mr Sergeant's updated letter of appointment dated 23 June 2017 set out his key terms and conditions:
  a. annual director's fees comprise of $75,000 Director's fee from 1 January 2017 (previously $50,000, of which 50% was paid in Shares until 30 June 2016) and $175,000 (previously $25,000 Executive fee from appointment to 1 May 2017); and
  b. 2/7ths of the performance rights pool (prior Shareholder approval was obtained for 3/7ths of the performance rights pool, following the appointment of a new Executive Director 1/7ths of the performance rights have been reallocated to the new Executive, subject to Shareholder approval at the 2017 AGM. Share Based payment have been valued at $1,003,935:
     i. Performance rights dated 24 February 2017 $137,209 (2016: $nil), subject to Shareholder approval at the 2017 AGM; and
     ii. Performance rights dated 18 January 2016 $866,716 (2016: $811,364).

- Ms Black was appointed an Executive Director (part-time) on 1 May 2017, an updated letter of appointment dated 23 June 2017 sets out her key terms and conditions:
  a. annual director's fees comprise of $75,000 Director's fee from 1 January 2017 (previously $50,000) and $175,000 Executive fee from 1 May 2017 (previously $200,000 from 1 January 2017 to 30 April 2017 and $25,000 from 1 May 2015 to 31 December 2017).
  b. 1/7ths of the performance rights pool of which Share Based payment have been valued at $357,510:
     i. Performance rights dated 24 February 2017 $68,605 (2016: $nil), subject to Shareholder approval at the 2017 AGM; and
     ii. Performance rights dated 18 January 2016 $288,905 (2016: $270,455).

- Mr Holdaway was appointed an Executive Director on 1 April 2017, the letter of appointment dated 25 May 2016 and updated letter of appointment dated 23 June 2017 sets out his key terms and conditions:
  a. annual director's fees comprise of $75,000 Director's fee from 1 January 2017 (previously $50,000) and $125,000 Executive fee from appointment on 1 April 2017; and
  b. 2/7ths of the performance rights pool (prior Shareholder approval was obtained for 1/7ths of the performance rights pool, following the appointment as an Executive Director 1/7ths of the performance rights have been reallocated from Mr Sergeant, subject to Shareholder approval at the 2017 AGM. Share Based payment have been valued at $426,114:
     i. Performance rights dated 24 February 2017 $137,209 (2016: $nil), subject to Shareholder approval at the 2017 AGM; and
     ii. Performance rights dated 18 January 2016 $288,905 (2016: $811,364).

Directors' Report

Remuneration report (audited) (continued)

Shareholdings of key management personnel

	Opening interest at 1 July 2016[8]	Net changes during the year[8]	Performance Right Shares converted[8]	Share Split[9]	Closing interest at date of report
Non-executives					
Paul McKenzie[1]	148,360	304,906	30,000	2,039,094	2,522,360
Gregory Boulton[2]	-	7,623	-	68,607	76,230
Executive directors					
John Sergeant[3]	107,040	555,257	90,000	2,252,673	3,004,970
Graham Holdaway[4]	37,367	29,243	30,000	770,175	866,785
Shauna Black[5]	6,667	13,000	30,000	402,003	451,670
Executives					
Peter Lockett[6]	-	12,500	-	-	12,500
Victoria Allinson[7]	1,257	1,516	-	16,713	19,486
Total	**300,691**	**924,045**	**180,000**	**55,549,168**	**6,954,001**

	Opening interest at 1 July 2016[8]	Net changes during the year[8]	Performance Right Shares converted[8]	Share Split[9]	Closing interest at date of report
Post-share split					
Non-executives					
Paul McKenzie[1]	1,483,600	738,760	300,000	-	2,522,360
Gregory Boulton[2]	-	76,230	-	-	76,230
Executive directors					
John Sergeant[3]	1,070,400	1,034,570	900,000	-	3,004,970
Graham Holdaway[4]	373,670	193,115	300,000	-	866,785
Shauna Black[5]	66,670	85,000	300,000	-	451,670
Executives					
Peter Lockett[6]	-	12,500	-		12,500
Victoria Allinson[7]	12,570	6,916	-		19,486
Total	**3,006,910**	**2,147,091**	**1,800,000**		**6,954,001**

The details of key management personal's shares on a post-share split basis is as follows:

(1) During the year Mr McKenzie acquired 612,380 shares as part of the pro-rata non-renounceable entitlement offers; 126,380 on-market and received 300,000 shares under the Performance Rights Plan (2016: 31,250 post-split shares were issued in lieu director's fees totaling $25,000). At the date of this report Paul McKenzie's Shares comprise:

a. 2,000,000 held by Aminac Pty Ltd ATF Agrarian Management S/F A/C of which Mr McKenzie is the managing Director; and
b. 522,360 held by Alke Pty Ltd (The McKenzie Family Turst No 2 A/C) of which Mr McKenzie is the managing Director.

(2) During the year Mr Boulton acquired 16,230 shares as part of the pro-rata non-renounceable entitlement offers; and 60,000 on-market. At the date of this report Gregory Boulton's 76,230 Shares are held by G Boulton Pty Ltd as Trustee of <Greg Boulton Family S F A/C>

(3) During the year Mr Sergeant acquired 1,032,570 shares as part of the pro-rata non-renounceable entitlement offers; 2,000 on-market and received 900,000 shares under the Performance Rights Plan (2016: 78,130 post-split shares were issued in lieu of director's fees totaling $50.000). At the date of this report John Sergeant's Shares comprise:

a. 2,099,664 held by Phalaenopsis Pty Ltd ATF Sergeant Family Trust of which Mr Sergeant has effective control;
b. 418,230 Direct interest;
c. 474,366 held by Sergeant Family Superannuation Fund of which Mr Sergeant has effective control; and
d. 12,710 held by Ms J Sergeant; Ms Sergeant is Mr Sergeant's wife.

Directors' Report

Remuneration report (audited) (continued)

(4) During the year Mr Holdaway acquired 182,080 shares as part of the pro-rata non-renounceable entitlement offers; 11,035 on-market and received 300,000 shares under the Performance Rights Plan (2016: 66,670 post-split shares were issued in lieu of director's fees totaling $39,167). At the date of this report Graham Holdaway's Shares comprise:
   a. 401,015 held by Mr Graham Ian Holdaway and Mrs Kristina Mary Irving Holdaway <G & K Super Fund A/C> of which Mr Holdaway has effective control; and
   b. 465,770 held by Holdaway & Holdaway Pty Ltd of which Mr Holdaway has effective control, being a director and shareholder.

(5) During the year Ms Black acquired 85,000 shares as part of the pro-rata non-renounceable entitlement offers; and received 300,000 shares under the Performance Rights Plan (2016: 66,670 post-split shares were issued in lieu of Ms Black's director's fees totaling $39,167). At the date of this report Shauna Black's Shares comprise:
   a. A direct interest in 66,670 Shares; and
   b. 385,000 held by Black Stump Regional Pty Ltd ATF the Taybric Family Trust of which Ms Black has effective control.

(6) Mr Lockett was appointed as an Executive on 8 May 2017. At the date of this report Mr Lockett's 12,500 Shares are held by Mr P Lockett and Ms C Charnock <Seaview> S/F AC of which Mr Lockett has effective control.

(7) During the year Ms Allinson acquired 6,916 shares as part of the pro-rata non-renounceable entitlement offers (2016: 660 post-split shares were issued in payment of professional fees invoices from Allinson Accounting Solutions Pty Ltd). At the date of this report Ms Allinson's shares comprise:
   a. 16,510 shares held by Allinson Super Funds A/C of which she has effective control; and
   b. 2,976 shares held directly.

(8) Shares are shown as both post and pre share split. Refer to post-share split table for details of shares on a post share split basis.

(9) Share split of 10 shares for every 1 share held occurred on 8 March 2017.

Other Rights and Option holdings of key management personnel

Performance rights

	Opening interest at 1 July 2016(6)	Performance Rights issued year(6)	Performance Right Shares converted(6)	Share Split(7)	Closing interest at date of report
Non-executives					
Paul McKenzie(1)	-	42,857	(30,000)	115,713	128,570
Gregory Boulton(2)	-	12,857	-	115,713	128,570
Executive directors					
John Sergeant(3)	-	115,714	(90,000)	231,426	257,140
Graham Holdaway(4)	-	55,714	(30,000)	231,426	257,140
Shauna Black(5)	-	42,857	(30,000)	115,713	128,570
Executives					
Peter Lockett	-	-	-	-	-
Victoria Allinson	-	-	-	-	-
Total	**-**	**269,999**	**(180,000)**	**809,991**	**899,990**

Directors' Report

Remuneration report (audited) (continued)

Post-share split	Opening interest at 1 July 2016[6]	Performance Rights issued year[6]	Performance Right Shares converted[6]	Share Split[7]	Closing interest at date of report
Non-executives					
Paul McKenzie[1]	-	428,570	(300,000)	-	128,570
Gregory Boulton[2]	-	128,570	-	-	128,570
Executive directors					
John Sergeant[3]	-	1,157,140	(900,000)	-	257,140
Graham Holdaway[4]	-	557,140	(300,000)	-	257,140
Shauna Black[5]	-	428,570	(300,000)	-	128,570
Executives					
Peter Lockett	-	-	-	-	-
Victoria Allinson	-	-	-	-	-
Total	**-**	**1,889,999**	**(1,800,000)**	**-**	**899,990**

(1) During the year Mr McKenzie received 428,570 performance rights: 300,000 Performance Rights dated 18 January 2016 and 128,570 Performance Rights dated 24 February 2017 (2016: nil). During the year 300,000 Performance Rights Plan 18 January 2016 vested and were converted into Shares.
(2) During the year Mr Boulton received 128,570 Performance Rights dated 24 February 2017 (2016: nil).
(3) During the year Mr Sergeant received 1,157,140 performance rights: 900,000 Performance Rights dated 18 January 2016 and 257,140 Performance Rights dated 24 February 2017 (2016: nil). During the year 900,000 Performance Rights Plan 18 January 2016 vested and were converted into Shares.
(4) During the year Mr Holdaway received 557,140 performance rights: 300,000 Performance Rights dated 18 January 2016 and 257,140 Performance Rights dated 24 February 2017 (2016: nil). During the year 300,000 Performance Rights Plan 18 January 2016 vested and were converted into Shares.
(5) During the year Ms Black received 428,570 performance rights: 300,000 Performance Rights dated 18 January 2016 and 128,570 Performance Rights dated 24 February 2017 (2016: nil). During the year 300,000 Performance Rights Plan 18 January 2016 vested and were converted into Shares.
(6) Shares are shown as both post and pre share split. Refer to post-share split table for details of shares on a post share split basis.
(7) Share split of 10 shares for every 1 share held occurred on 8 March 2017.

There are no option holdings for the Group.

Related party transactions

	Consolidated	
	2017	2016
	$	$
Directors transaction		
Income: Annual lease payment[1]	**23,648**	23,483
Expense: Loan interest[2]	**(16,548)**	-
Liability: Loan agreement[2]	**-**	500,000
Liability: Lease payment received in advance[1]	**-**	23,648

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

Directors' Report

Remuneration report (audited) (continued)

(2) In June 2016, Aminac Pty Ltd as Trustee for Agrarian Management Super Fund, an entity associated with the Chair of the Company, Mr McKenzie agreed to lend $500,000 to the Company in the current financial year and to provide a loan facility of up to a further $50,000. $500,000 of the loan was drawn down in June 2016. Interest is charged at a rate of 8% per annum. The loan is secured by a first ranking mortgage over two of the Company's properties, known as Brookland Park CT Volume 5813 Folio 274 and Yerda North CT Volume 5959 Folio 964 (total book value $1,139,342). In May 2017 the loan and interest of $15,671 were repaid in full (2016: $nil)

During the year Alke Pty Ltd (The McKenzie Family Account No 2 A/C) of which Mr McKenzie is the managing Director provided an unsecured loan facility of up to $250,000. Interest is charged at a rate of 8% per annum. $250,000 of the loan was drawn down in April 2017 and repaid in full. Interest of $877 was charged and paid during the year (2016: $nil).

End of Remuneration Report

Share options

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

Signed in accordance with a resolution of the directors

Paul McKenzie
Chairman

Dated this 25th day of September 2017

Grant Thornton

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Auditor's Independence Declaration to the Directors of Kangaroo Island Plantation Timbers Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Kangaroo Island Plantation Timbers Limited for the year ended 30 June 2017, 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

S K Edwards
Partner – Audit & Assurance

Adelaide, 25 September 2017

Corporate Governance Statement

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

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

The Group's Corporate Governance Statement for the financial year ending 30 June 2017 was initially adopted on 21 June 2016 and a reviewed version adopted by the Board on 25 September 2017. The Corporate Governance Statement is available at www.kipt.com.au.

Financial Report

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2017

	Notes	Consolidated 2017 $'000	2016 $'000
Management fees		**79**	6
Operating lease – land	6a	**36**	38
Operating lease - Equipment hire	6a	**27**	31
Bank interest		**43**	10
Revenue		**185**	85
Cost of sales		**-**	-
Gross profit		**185**	85
Fair value gain on biological assets	15	**55,711**	-
Other income	6b	**11**	100
Profit/(loss) on assets sold	6c	**11**	(34)
Forestry expenses		**(475)**	(310)
Wharf feasibility costs		**(1,027)**	(367)
Administrative expenses		**(32)**	(52)
Other expenses	6d	**(4,321)**	(2,311)
Finance costs	6e	**(278)**	-
Profit/(loss) before income tax		**49,785**	(2,889)
Income tax (expense)/benefit	7	**(13,699)**	58
Net profit/(loss) for the year		**36,086**	(2,831)
Other comprehensive income			
Items that will not be classified subsequently to profit or loss			
Net fair value gain in property, plant and equipment		**227**	135
Other comprehensive income for the year net of tax		**227**	135
Total comprehensive profit/(loss) for the year attributable to members of the parent		**36,313**	(2,696)
		EPS in cents	EPS in cents
Basic and diluted earnings per share			
Post-share split	8	**148**	(17)

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 2017

	Notes	Consolidated 2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**6,045**	895
Trade and other receivables	10	**5**	68
Other current assets	11	**1,493**	5
		7,543	968
Assets classified as held for sale	12	**-**	200
Total current assets		**7,543**	1,168
Non-current assets			
Property, plant and equipment	13	**45,732**	12,145
Investment properties	14	**100**	100
Biological assets	15	**80,889**	-
Deferred tax asset	7	**6,462**	-
Other non-current assets		**5**	5
Total non-current assets		**133,188**	12,250
TOTAL ASSETS		**140,731**	13,418
LIABILITIES			
Current liabilities			
Trade and other payables	16	**1,097**	332
Employee benefits	17	**53**	29
Interest-bearing liabilities	18	**-**	500
Total current liabilities		**1,150**	861
Interest-bearing liabilities	18	**25,000**	-
Deferred tax liability	7	**19,515**	-
Total non-current liabilities		**44,515**	-
TOTAL LIABILITIES		**45,665**	861
NET ASSETS		**95,066**	12,557
EQUITY			
Contributed equity	19	**60,648**	13,037
Reserves	20	**4,165**	5,353
Accumulated profit/(losses)		**30,253**	(5,833)
TOTAL EQUITY		**95,066**	12,557

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 2017

	Notes	Consolidated 2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		**97**	263
Payments to suppliers and employees		**(2,881)**	(728)
Payments to wharf development suppliers		**(1,073)**	(258)
Interest received		**43**	10
Borrowing costs		**(278)**	-
Net cash flows (used in) operating activities	22	**(4,092)**	(713)
Cash flows from investing activities			
Purchase of land		**(33,275)**	-
Purchase of biological assets		**(25,178)**	-
Proceeds from sale of investment properties		**215**	170
Proceeds from sale of plant and equipment		**2**	-
Deposit for wharf development assets		**(763)**	
Purchase of plant and equipment		**(117)**	-
Net cash flows from investing activities		**(59,116)**	170
Cash flows from financing activities			
Proceed from the issue of shares		**46,337**	-
Payment for share issue costs		**(2,479)**	-
Proceeds from bank borrowings		**25,000**	-
Repayment of bank borrowings		**-**	-
Proceeds from other borrowings		**5,750**	-
Repayment of other borrowings		**(5,750)**	-
Proceeds from director's loans		**250**	500
Repayment of director's loans		**(750)**	-
Net cash flows from financing activities		**68,358**	500
Net increase/(decrease) in cash and cash equivalents		**5,150**	(43)
Cash and cash equivalents at beginning of year		**895**	938
Cash and cash equivalents at end of year	9	**6,045**	895

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 2017

	Issued Capital $'000	Treasury Shares $'000	Property, plant & equipment Revaluation Reserve $'000	Option & performance Rights Reserve $'000	Accumulated Losses $'000	Total $'000
Balance at 1 July 2015	13,233	(450)	3,323	272	(3,002)	13,376
Loss for the period	-	-	-	-	(2,831)	(2,831)
Other comprehensive income	-	-	135	-	-	135
Total comprehensive income	-	-	135	-	(2,831)	(2,696)
Share-based payment	254	-	-	1,623	-	1,877
Transaction with owners	254	-	-	1,623	-	1,877
Balance at 30 June 2016	**13,487**	**(450)**	**3,458**	**1,895**	**(5,833)**	**12,557**
Balance at 1 July 2016	13,487	(450)	3,458	1,895	(5,833)	12,557
Profit for the period	-	-	-	-	36,086	36,086
Other comprehensive income	-	-	227	-	-	227
Total comprehensive income	-	-	227	-	36,086	36,313
Share issued	49,693			(3,356)		46,337
Share issue costs	(2,084)	-	-	-	-	(2,084)
Net shares issued	47,609	-	-	(3,356)	-	44,253
Share-based payment	2	-	-	1,941	-	1,943
Transaction with owners	47,611	-	-	(1,415)	-	46,196
Balance at 30 June 2017	**61,098**	**(450)**	**3,685**	**480**	**30,253**	**95,066**

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

Notes to the Consolidated Financial Statements

1. Corporate information

The financial report for Kangaroo Island Plantation Timbers Ltd for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 25 September 2017.

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

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

2. Basis of preparation and accounting policies

a) Basis of preparation

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

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

b) Compliance with IFRS

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

c) New accounting standards and interpretations

A number of new and revised standards became effective for the first time for annual periods beginning on or after 1 July 2016.

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

Information on the more significant standards is presented below.

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

- the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy

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

New / revised pronouncement	Superseded pronouncement	Nature of change	Likely impact on initial application
AASB 9 *Financial Instruments* (December 2014)	*AASB 139 Financial Instruments: Recognition and Measurement*	AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting. 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: a Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows. b 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. c Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.	*The entity has yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.*

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

New / revised pronouncement	Superseded pronouncement	Nature of change	Likely impact on initial application
AASB 9 *Financial Instruments (December 2014) continued*	*AASB 139 Financial Instruments: Recognition and Measurement*	d 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. e Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: Z the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI) Z the remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9: Z classification and measurement of financial liabilities; and Z derecognition requirements for financial assets and liabilities. AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements. Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.	
AASB 15 *Revenue from Contracts with Customers*	AASB 118 *Revenue* AASB 111 *Construction Contracts* Int. 13 *Customer Loyalty Programmes* Int. 15 *Agreements for the Construction of Real Estate* Int. 18 *Transfer of Assets from Customers*	AASB 15:) replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and some revenue-related Interpretations: - establishes a new revenue recognition model - changes the basis for deciding whether revenue is to be recognised over time or at a point in time - provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing) - expands and improves disclosures about revenue.	The entity has yet to undertake a detailed assessment of the impact of AASB 15 as the company currently has no contracts with customers.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

New / revised pronouncement	Superseded pronouncement	Nature of change	Likely impact on initial application
AASB 15 *Revenue from Contracts with Customers (continued)*	Int. 131 *Revenue – Barter Transactions Involving Advertising Services* *Int. 1042* Subscriber Acquisition Costs in the Telecommunications Industry	In May 2015, the AASB issued ED 260 *Income of Not-for-Profit Entities*, proposing to replace the income recognition requirements of AASB 1004 *Contributions* and provide guidance to assist not-for-profit entities to apply the principles of AASB 15. The ED was open for comment until 14 August 2015 and the AASB is currently in the process of redeliberating its proposals with the aim of releasing the final amendments in late 2016	However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.
AASB 16 *Leases*	AASB 117 *Leases* Int. 4 *Determining whether an Arrangement contains a Lease* Int. 115 *Operating Leases—Lease Incentives* Int. 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	AASB 16: • replaces AASB 117 *Leases* and some lease-related Interpretations • requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases • provides new guidance on the application of the definition of lease and on sale and lease back accounting • largely retains the existing lessor accounting requirements in AASB 117 • requires new and different disclosures about leases	The entity currently has no material leases and AASB 117 is not expected to have any impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

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.

d) Basis of consolidation

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

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

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

All controlled entities have a June financial year-end.

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

2. Basis of preparation and accounting policies (continued)

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

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

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

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

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

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

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

e) Segment reporting

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

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

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

2. Basis of preparation and accounting policies (continued)

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

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

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

f) Cash and cash equivalents

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

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

g) Trade and other receivables

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

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

h) Biological Assets

Timber plantations

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

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

Further details including key assumptions can be found in Note 15.

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

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

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

i) Financial Instruments

Recognition, Initial Measurement and Derecognition

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

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

Classification and Subsequent Measurement of Financial Assets

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

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

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

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

Loans and Receivables

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

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

Financial Assets at FVTPL

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

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

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

(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.

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

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

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

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

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

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.

j) Property, plant and equipment

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

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

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

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

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

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

In the current period, the Group has assessed that the route to market for its biological assets is now more probable than not (refer to 2(h) for further details). In accordance with AASB 13 *Fair Value Measurement* paragraph 27, the Group has reassessed the valuation basis as a result of the Group's biological asset, timber having a route to market; the land's highest and best use now being forestry land. All land valuations have been updated to reflect the highest and best use, valuations were completed by an external independent valuer. Further details of the plantation land and buildings fair value valuation can be found in Note 13.

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.

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

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

k) Investment properties

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

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

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

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

l) Impairment of non-financial assets

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

Management has considered the triggers for impairment and concludes that no impairment is required for the year ended 30 June 2017.

m) Trade and other payables

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

n) Provisions and employee leave benefits

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

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

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

Employee Leave Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date.

2. Basis of preparation and accounting policies (continued)

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.

o) Contributed equity

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

p) Revenue recognition

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

Timber sales

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

Interest

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

Operating leases

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

r) Share-based payment transactions

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

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

s) Non-current assets classified as held for sale

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

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

t) Income tax

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

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

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

2. Basis of preparation and accounting policies (continued)

- 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 the taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

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) 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 members of the parent adjusted for:

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

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

v) Comparative figures

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

w) Fair value measurements

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

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

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

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

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

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

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

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

- Note 13: Property, Plant and Equipment; and
- Note 15: Biological Assets.

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

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 results 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.

Key Estimate – Valuation of biological assets

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

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

Major Development status (under section 46 of the Development Act) allows the planning decision regarding the Group's proposed deep-water wharf at Smith Bay to be determined by the Minister for Planning, on the basis of criteria determined by the Development Assessment Commission, rather than at a local government level. Using this development pathway also removes any right of appeal by objectors against development consent.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

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

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

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

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

As referred to in Note 2(h), the Directors have used an independent valuer to estimate the fair value less cost to sell of the standing plantation trees held by the Group. The carrying value of the standing plantation trees at the reporting date is shown in Note 15. The fair value less cost to sell is calculated as the net present value of expected future cash flows. The biological asset valuation is sensitive to estimates used by the independent valuer in calculating the expected future cash flows which include key assumptions on yields of radiata pine and eucalypt plantation timber, as well as assumptions as to the future price of timber and the USD exchange rate.

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

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

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

The Board has elected to use valuations provided by the independent external valuer.

Key Estimate – Valuation of Land

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

However, over the past two years, the Group has acquired a deep-water wharf site in close proximity to its plantations, commissioned a suite of reports needed for the preparation of an environmental impact statement, commissioned a report yielding a costed design for a wharf, and has been working with local and state government and with other timber owners on Kangaroo Island to develop an affordable route to market, by the construction of a deep-water berth.

Notes to the Consolidated Financial Statements

2. Basis of preparation and accounting policies (continued)

In February 2017, the Deputy Premier of South Australia and Minister for Planning, the Hon. John Rau SC MP, had formally declared that the Group's Smith Bay wharf proposal will be assessed under the major projects pathway designated in s.46 of the South Australian Development Act 1993.

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

The Board has elected to use valuations provided by the independent external valuer. In assessing the fair value of land held, the Directors have re-assessed the highest and best use in accordance with AASB 13 *Fair Value Measurement* paragraph 27, as a result of the Group's biological asset, timber, now having a probable route to market. The land's highest and best use is now forestry land rather than encumbered non-forestry land. Refer to Note 13 for details of the valuations assumptions.

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

The amount recognised as an expense for the 30 June 2017 and 30 June 2016 financial periods is calculated using estimations for the expected vesting periods, fair value of the performance rights at grant date and remaining uncertainties about the satisfaction of performance conditions. Refer to Notes 20 and 28 for further details.

Key Estimate – *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.

y) Going concern assumptions

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

During the year ended 30 June 2017, the Group incurred a net loss after tax of $19,625,000 (excluding fair value gain of $55,711,000) and a net cash outflow used in operating activities of $4,092,000. The cash and cash equivalents balance, as at 30 June 2017 was $6,045,000. The consolidated entity's net current asset position at 30 June 2017 was $95,066,000. The Company has a $57,100,000 facility with the CBA of which $25,000,000 is drawn; and $30,000,000 is available to fund Wharf Construction once approval obtained; and $2,100,000 asset finance facility is available.

The Group's primary focus is on development of the Group's operations on Kangaroo Island.

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 any additional funds required, both through the raising of equity and debt capital - up to the point where it will be able to meet its obligations out of the net proceeds of harvesting and exporting timber.

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

Notes to the Consolidated Financial Statements

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.

Categories of Financial Assets and Liabilities

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

30 June 2017	Note	Assets at FVTOCI $'000	Assets at FVTPL $'000	Derivatives used for hedging $'000	Financial assets at amortised cost $'000	Total $'000
Financial Assets						
Cash and cash equivalents	9	-	-	-	6,045	**6,045**
Trade and other receivables	10	-	-	-	5	**5**
Assets held for sale	12	-	-	-	-	**-**
Other financial assets		-	-	-	5	**5**
Property Plant and Equipment	13	45,732	-	-	-	**45,732**
Investment Properties	14	-	100	-	-	**100**
Biological Assets	15	-	80,889	-	-	**80,889**
		45,732	80,989	-	6,055	**132,776**

	Note	*Derivatives used for hedging $'000	*Designated at FVTPL $'000	*Other liabilities at FVTPL $'000	#Other liabilities $'000	**Total $'000**
Financial Liabilities						
Trade and other payables	16	-	-	-	1,097	**1,097**
Non-current borrowings	18	-	-	-	25,000	**25,000**
Total		-	-	-	26,097	**26,097**

30 June 2016	Note	Assets at FVTOCI $'000	Assets at FVTPL $'000	Derivatives used for hedging $'000	Financial assets at amortised cost $'000	Total $'000
Financial Assets						
Cash and cash equivalents	9	-	-	-	895	**895**
Trade and other receivables	10	-	-	-	68	**68**
Assets held for sale	12	-	200	-	-	**200**
Other financial assets		-	-	-	5	**5**
Property Plant and Equipment	13	12,145	-	-	-	**12,145**
Investment Properties	14	-	100	-	-	**100**
		12,145	300	-	968	**13,413**

Notes to the Consolidated Financial Statements

3. Financial risk management objectives and policies (continued)

	Note	*Derivatives used for hedging $'000	*Designated at FVTPL $'000	*Other liabilities at FVTPL $'000	#Other liabilities $'000	**Total $'000**
Financial Liabilities						
Trade and other payables	16	-	-	-	332	**332**
Non-current borrowings	18	-	-	-	500	**500**
Total		-	-	-	832	**832**

* Carried at fair value
# Carried at amortised cost

Risk Exposures and Responses

Interest Rate Risk

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

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

	Consolidated	
	2017 $'000	2016 $'000
Financial assets		
Cash and cash equivalents	**6,045**	895
Term deposits	**-**	-
	6,045	895
Financial liabilities		
Interest bearing liabilities	**(25,000)**	(500)
Net exposure	**18,955**	395

The Group has $25,000,000 debt exposed to variable rates of interest. Interest and borrowing costs are as follows:

- 90 day BBSY variable rate (1.79% per annum as at 30 June 2017); and
- 3.1% per annum charged on amounts drawn down.

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

At 30 June 2017, 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:

Judgements of reasonably possible movements:	**Post tax profit Higher/(lower)**		**Equity Higher/(lower)**	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Consolidated				
+1%	190	9	-	-
-0.5%	(95)	(4)	-	-

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

Notes to the Consolidated Financial Statements

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 Group 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 Commonwealth Bank, which has an S&P (Standard & Poors) rating of AA-.

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

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

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

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

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

Refer to Note 10 for ageing analysis of receivables.

Liquidity risk

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

The table below reflects all contractually fixed settlements and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2017.

Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2017.

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

	Consolidated	
	2017	2016
	$'000	$'000
6 months or less	**(1,150)**	(861)
6-12 months	**-**	
1-5 years	**-**	-
Over 5 years	**(27,445)**	-
	(28,595)	(861)

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.

Notes to the Consolidated Financial Statements

3. Financial risk management objectives and policies (continued)

Year ended 30 June 2017	< 6 months $'000	6-12 months $'000	1-5 years $'000	> 5 years $'000	Total $'000
Financial Assets					
Cash and cash equivalents	6,045	-	-	-	**6,045**
Trade and other receivables	736	762	-	-	**1,498**
	6,781	762	-	-	**7,543**
Financial Liabilities					
Trade and other payables	(1,150)	-	-	-	**(1,150)**
	(1,150)	-	-	-	**(1,150)**
Net Maturity	**5,631**	**762**	**-**	**-**	**(6,393)**
Year ended 30 June 2016					
Financial Assets					
Cash and cash equivalents	895	-	-	-	**895**
Trade and other receivables	73	-	-	-	**73**
	968	-	-	-	**968**
Financial Liabilities					
Trade and other payables	(861)	-	-	-	**(861)**
	(861)	-	-	-	**(861)**
Net Maturity	**107**	**-**	**-**	**-**	**107**

Fair value

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

Price risk

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

4. Fair value measurement of non-financial instruments

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 30 June 2017:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2017				
Property, plant and equipment				
Land held for production in Australia	-	-	45,240	**45,240**
Biological assets				
Standing timber	-	-	80,889	**80,889**
Investment property				
Land held for sale in Australia	-	-	100	**100**
30 June 2016				
Property, plant and equipment				
Land held for production in Australia	-	-	11,672	**11,672**
Assets classified as held for sale	-	-	200	**200**
Investment property				
Land held for sale in Australia	-	-	100	**100**

Notes to the Consolidated Financial Statements

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

Fair value of the Group's main property assets, plantation land assets was calculated by an independent expert McGees Property; and biological assets was calculated by an independent expert Geddes Management Pty Ltd. The significant inputs and assumptions have been reviewed by management. The valuation processes and fair value changes are reviewed by the Board of Directors and Audit Committee at each reporting date. Further information is set out below.

Land held for production in Australia (Level 3)

The fair value of the plantation land assets was calculated by an independent expert McGees Property in their report dated 19 July 2017. The valuation was carried out in accordance with IFRS 13 Fair Value Measurement, AASB 13 Fair Value Measurement, AASB 116 Property, Plant and Equipment. The valuation used a market approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and current use.

The significant unobservable input is the adjustment for factors specific to the land in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions. Refer to Note 13 for further details.

Assets classified has held for sale (Level 3)

Arable land properties with a fair value of $nil (2016: $200,000) at the year end. During the year arable land was sold for $200,000 (2016: $215,000), contracts were exchanged in March 2015 and settlement occurred on 21 October 2016.

Biological assets (Level 3)

The fair value of the biological assets was calculated by an independent expert Geddes Management Pty Ltd (Geddes) in in their report dated 14 August 2017. The valuation model used by Geddes allows the Group to estimate the value of its timber under various scenarios, and to consider the impact of variables within and outside the Group's control, such as harvesting costs, internal road construction costs, haulage, wharf charges, exchange rates and international timber prices. Like any forward-looking valuation, the outputs are sensitive to the choice of assumptions. Refer to Note 15 for further details.

Land held for sale in Australia (Level 3)

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

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

5. Segment reporting

Year ended 30 June 2017 and 30 June 2016

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

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

All operations are conducted in Australia.

Notes to the Consolidated Financial Statements

6. Revenue and expenses

	Consolidated	
	2017	2016
	$'000	$'000
(a) Operating leases income		
Operating leases: freehold land and buildings	**36**	38
Operating leases: equipment Other	**27**	31
Total	**63**	69

The Group leases a number of assets on operating leases:

Operating leases: freehold land and buildings $35,618 (2016: $37,960)

- The Lease agreement between Graham Holdaway and the Group commenced on 30 June 1999. The lease is for 187.60 hectares of Land known as "Gosse East' and has a term of 25 years. Annual rent for 30 June 2017 is $23,648 (2016: $23,483) is fully paid. The rent paid in advance for year ended 30 June 2017 amounts to $nil (30 June 2016: $23,648) excluding GST.
- The Group has a holiday rental property at Smith Bay property. The annual rent received amounted to $4,034 (2016: $9,281);
- The Group also have a residential lease on one property. The agreement is cancellable and the annual rent received amounted to $5,196 (2016: $5,196); and
- The Group also casually leases out certain properties for agistment and other purposes. The annual income amounted to $2,739 (2015: $nil).

Operating leases: equipment $27,572 (2016: $30,975)

- The Group has entered into an equipment lease agreement that are cancellable by lessor giving between one and three month notice. The annual income amounted to $27,572 (2016: $30,975).

	Consolidated	
	2017	2016
	$'000	$'000
(b) Other income		
Other –bad debts recovered	**11**	100
Total Other income	**11**	100
(c) Sale of assets		
Sale of investment properties	**200**	170
Cost of investment properties sold including sale costs	**(191)**	(189)
(Loss) on investment properties sold	**9**	(19)
Sale of equipment and motor vehicles	**12**	37
Cost of assets sold	**(10)**	(52)
(Loss)/profit on assets sold	**2**	(15)
Total profit/(loss) on assets sold	**11**	(34)

Notes to the Consolidated Financial Statements

6. Revenue and expenses (continued)

	Consolidated 2017 $'000	2016 $'000
(d) Other expenses		
Share-based payment	**2,223**	1,739
Audit fees	**80**	44
ASIC fees	**7**	2
Depreciation	**125**	194
FIT acquisition extension fee	**750**	-
ASX/share registry fees	**181**	49
Directors fees	**456**	113
Legal fees	**136**	22
Professional fees	**191**	97
Other corporate expenses	**172**	51
Other expenses	**4,321**	2,311
(e) Finance costs		
Borrowing costs	**204**	-
Directors loan interest	**16**	-
Other bank interest	**58**	-
Finance costs	**278**	-
(f) Employee benefits expense		
Wages and salaries	**253**	153
Directors fees (including super)	**308**	100
Share based payment	**2**	114
Performance rights	**1,941**	1,623
Annual leave provision	**20**	6
Defined contributions superannuation	**24**	12
Total employee and directors remuneration	**2,548**	2,008

7. Income Tax

	Consolidated 2017 $'000	2016 $'000
a) Income tax expense		
The major components of income tax expense are:		
Income Statement		
Adjustments in relation to previous income tax	**-**	**-**
Deferred income tax		
Benefit from previously unrecognised tax loss used to reduce deferred tax expense	**13,699**	(58)
Income tax expense/(benefit) reported in profit or loss	**13,699**	(58)
Profit/(loss) before tax	**49,785**	(2,889)
At the statutory income tax rate of 30% (2016: 30%)	**14,936**	(867)
Non-deductible expenses/capital gain on sale of land	**588**	422
Other deductions	**-**	-
Tax loss brought to accounts as a deferred tax asset	**(1,825)**	-
Tax loss not brought to accounts as a deferred tax asset	**-**	387
Income tax expense/(benefit) reported in income statement	**13,699**	(58)

Notes to the Consolidated Financial Statements

7. Income tax (continued)

	Consolidated	
	2017	2016
	$'000	$'000
b) Amounts charged or credited to other comprehensive income		
Deferred income tax related to items charged (credited) to other comprehensive income		
Net gain on property, plant and equipment	**95**	58
Share issue costs	**(742)**	-
Tax losses	**-**	(58)
Income tax expense reported in equity	**(647)**	-

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 2017 amount to $nil (2016: $6,056,650) and the gross value of tax losses carried forward amounted to $18,496,797 (2016: $15,310,467). The gross value of tax losses recognised at 30 June 2017 amounted to $18,496,797 (2016: $nil).

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2017	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
CONSOLIDATED						
Trade and other receivables	**596**	4	**-**	-	**596**	4
Property, plant & equipment	**291**	(19)	**(5,885)**	(2,774)	**(5,594)**	(2,793)
Biological assets	**-**	-	**(13,629)**	-	**(13,629)**	-
Trade and other payables	**26**	13	**-**	-	**26**	13
Tax losses	**5,549**	4,593	**-**	-	**5,549**	4,593
Decognised tax losses	**-**	(1,817)	**-**	-	**-**	(1,817)
Tax (assets)/liabilities	**6,462**	2,774	**(19,515)**	2,774	**(13,052)**	-
Set off of tax	**-**	(2,774)	**-**	(2,774)	**-**	-
Net tax (assets)/liabilities	**6,462**	-	**(19,515)**	-	**(13,052)**	-

Notes to the Consolidated Financial Statements

7. Income tax (continued)

Deferred income tax

Deferred income tax at 30 June 2017 relates to the following:

Movements in temporary differences during the year	Balance 1 July 16 $'000	Recognised in Income $'000	Recognised on Acquisition $'000	Recognised in Equity $'000	**Balance 30 June 17 $'000**
Property, plant & equipment	2,793	(378)	3,084	95	**5,594**
Biological assets	-	16,713	(3,084)	-	**13,629**
Trade and other receivables	(4)	150	-	(742)	**(596)**
Trade and other payables	(13)	(13)	-	-	**(26)**
Tax losses	(2,776)	(2,773)	-	-	**(5,549)**
	-	13,699	-	(647)	**13,052**

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

8. Earnings per share

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

	Consolidated **2017 $'000**	Consolidated 2016 $'000
a) Earnings used in calculating earnings per share		
Net profit/(loss) attributable to ordinary equity holders of the parent	**36,086**	**(2,831)**

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

	2017 Number Thousands	2016 Number Thousands
b) Weighted average number of shares		
Post-share split		
Weighted average number of ordinary shares for basic earnings per share	**24,417**	17,020
Effect of dilution:		
Share options and performance rights	**-**	-
Weighted average number of ordinary shares adjusted for the effect of Dilution	**24,417**	17,020

Notes to the Consolidated Financial Statements

8. Earnings per share (continued)

	2017 Number Thousands	2016 Number Thousands
Pre-share split		
Weighted average number of ordinary shares for basic earnings per share	**2,417**	1,702
Effect of dilution:		
Share options and performance rights	**-**	-
Weighted average number of ordinary shares adjusted for the effect of Dilution	**2,417**	1,702

c) Basic and diluted earnings per share

	EPS in cents	EPS in cents
Post-share split	**148**	(17)
Pre-share split	**1478**	(166)

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

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

9. Current assets – Cash and cash equivalents

	Consolidated	
	2017 $'000	2016 $'000
Cash at bank and in hand	**6,045**	895
	6,045	895

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value. At the 30 June 2017 $2,533,630 (2016: $nil) is held in a restricted savings account, the funds can only be used to pay for CBA borrowing costs.

Reconciliation to Cash Flow Statement
For the purposes of the Statement of Cash Flows, cash and cash equivalents amount to $6,045,000 (2016: $895,000).

10. Current assets – Trade and other receivables

	Consolidated	
	2017 $'000	2016 $'000
Trade receivables (a)	**5**	68
Carrying amount of trade and other receivables	**5**	68

Notes to the Consolidated Financial Statements

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

a) Terms of trade

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

b) Allowance for impairment loss

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

Consolidated		Total	61-90 Days PDNI*	61-90 Days CI*	+ 91 Days PDNI*	+ 91 Days CI*
2017	Trade and other Receivables	5	5	-	-	-
		5	**5**	**-**	**-**	**-**
2016	Trade and other Receivables	68	68	-	-	-
		68	68	-	-	-

*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 60 days past due.

*CI – Considered impaired

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

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

11. Other Current Assets

	Consolidated **2017** **$'000**	2016 $'000
Prepayments	**731**	5
Prepaid on the acquisition of an wharf fixed asset	**762**	-
	1,493	5

12. Assets Classified as Held for Sale

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

	Consolidated **2017** **$'000**	2016 $'000
Property, plant & equipment assets classified as held for sale	**-**	200
	-	200

During the prior years the Company sold a property that was in the process of being subdivided (from land know as Lycurgus) and settlement, with a sales value of $200,000 (book value $200,000) that settled in October 2016.

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

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

	Freehold land and Buildings $'000	Plant and equipment $'000	**Total $'000**
Year ended 30 June 2017			
At 1 July 2016 net of accumulated depreciation and impairment	11,672	473	**12,145**
Additions	33,275	117	**33,392**
Disposals	-	(12)	**(12)**
Adjustment in accumulated depreciation in relation to disposals	-	10	**10**
Depreciation charge for year	(29)	(96)	**(125)**
Revaluations(b)	322	-	**322**
At 30 June 2017 net of accumulated depreciation and impairment	45,240	492	**45,732**
At 30 June 2017			
Cost or fair value	45,426	1,284	**46,710**
Accumulated depreciation and impairment	(186)	(792)	**(978)**
Net carrying amount	**45,240**	**492**	**45,732**
Year ended 30 June 2016			
At 1 July 2015 net of accumulated depreciation and impairment	11,395	691	12,086
Additions	-	-	-
Disposals	-	(80)	(80)
Adjustment in accumulated depreciation in relation to disposals	-	30	30
Depreciation charge for year	(26)	(168)	(194)
Revaluations(b)	303	-	303
At 30 June 2016 net of accumulated depreciation and impairment	11,672	473	12,145
At 30 June 2016			
Cost or fair value	11,826	1,166	12,992
Accumulated depreciation and impairment	(154)	(693)	(847)
Net carrying amount	11,672	473	12,145

On 28 April 2017, the Company acquired the Forestry Investment Trust estate ("FIT Estate"). The FIT estate includes approximately 19,000 ha of land of which more than 10,700 is planted with Tasmanian blue gum (eucalyptus globulus). The current standing volume of timber is estimated at 2.4m green metric tonnes. Thus, the FIT estate acquisition will effectively quadruple the size of the Group's plantation area and triple its standing timber resource, with a corresponding increase in the Group's biological and land assets. The FIT estate was acquired for $58.4 million (including acquisition costs) of which $33.3 million relates to land and $25.1 million relates to standing timber.

b) Freehold land revaluations

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 30 June 2017 are based on independent experts valuation. The net result of the independent revaluation amounted to $322,000.

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

Independent expert's valuation technique

The Board has elected to use valuations provided by the independent external valuer. In assessing the fair value of land held, the Directors have re-assessed the highest and best use in accordance with AASB 13 *Fair Value Measurement* paragraph 27, as a result of the Group's biological asset, timber now having a probable route to market. The land's highest and best use is now forestry land rather than encumbered non-forestry land.

The fair value valuation has been prepare using a 'Summation Approach'; the land value has been assessed as a rate per hectare which is summated with the added value of any structure improvement. The independent expert has assessed the rate per hectare were in the range of $1,787 per hectare to $3,520 per hectare; and plantable land would be at the upper end of this range, being $2,900 to $3,200 per hectare. The result is the Company's land is valued at between $2,300 and $2,900 per plantable hectare. The land's location, rainfall, physical attributes, location of amenities and improvements influence where in this range a particular is valued.

In the current period, the Group's has assessed that the route to market for its biological assets is now more probable than not (refer to Note 15 for further details) and biological assets are now being recognised, accordingly the land must be valued on the same basis: that the Groups land is forestry land.

All fair value estimates for land and buildings are included in Level 3 of the fair value hierarchy.

Significant Observable Inputs

(i) Land valued assuming Smith Bay will be approved, enabling the export of timber.
(ii) The valuation assumed that plantation land will be utilised for the growing and harvesting of plantation timber over the next 20 years.
(iii) recent sales of land on Kangaroo Island and recent sales of land in a similar plantation based environmental area in South Australia and Victoria discounted for island location.

Significant Unobservable Inputs

(i) Estimated price per hectare are determined by the independent expert after observing each assets:
    a. location including surrounding land use, amenities and local services
    b. improvement including structural, fencing and water
    c. land and climatic characteristics including soil, climate and rainfall
    d. plantation details including planted hectares and age.
    e. Occupancy including dwellings, structures and licenses/leases.
(ii) the existence of an export wharf solidifies the view that the best use of Western Kangaroo Island land is plantation forestry.
(iii) Economic overview including locally, State and industry economic overview.

Sensitivity analysis

The fair value measurement of freehold land is sensitive to changes in the unobservable inputs which may result in a significantly higher or lower fair value measurement. The following tables demonstrate the sensitivity to a reasonably possible change in significant unobservable inputs, with all other variables held constant (change in profit and equity):

Notes to the Consolidated Financial Statements

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

Forestry land	**Consolidated** **2017** **$'000**	2016 $'000
Increase in estimated market value per hectare by 2%	**905**	N/A
decrease in estimated market per hectare by 2%	**(905)**	N/A
	-	N/A

c) Operating lease

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

14. Non-current assets – Investment properties

	Consolidated **2017** **$'000**	2016 $'000
At fair value		
Investment properties at 1 July	**100**	100
	100	100

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

The Independent Expert Valuation valued unplanted timber and native vegetation land at $250 per hectare thereby valuing this asset at $25,900. The Directors have determined that after observing prior sale of such assets and that this asset has already been subdivided and is expected to be sold as a separate asset for non-plantation purposes asset for $100,000. The total revaluation of freehold and investment land has not been increased, the freehold planation land valuation has been reduced by $74,100.

These inputs have been referenced to market information.

	Consolidated **2017** **$'000**	2016 $'000
Investment Properties		
Opening balance as at 1 July	**100**	100
Disposals	-	-
Fair value adjustment	-	-
Closing balance as at 30 June	**100**	100

15. Biological assets

	Consolidated **2017** **$'000**	2016 $'000
Plantation timber at cost	**25,178**	-
Add fair value adjustment:		
Fair value gain	**55,711**	-
Total biological assets	**80,889**	-
Classified as current	**-**	-
Classified as non-current	**80,889**	-

Notes to the Consolidated Financial Statements

15. Biological assets (continued)

On 28 April 2017, the Company acquired the Forestry Investment Trust estate ("FIT Estate"). The FIT estate includes approximately 19,000 ha of land of which more than 10,700 is planted with Tasmanian blue gum (Eucalyptus globulus). The current standing volume of timber is estimated at 2.4m green metric tonnes. Thus, the FIT estate acquisition effectively quadrupled the size of the Group's plantation area and tripled its standing timber resource, with a corresponding increase in the Group's biological and land assets. The FIT estate was acquired for $58.4 million (including acquisition costs) of which $33.2 million related to land and $25.2 million related to standing timber.

Fair value

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

However, over the past two years, the Group has acquired a deep-water wharf site in close proximity to its plantations, commissioned a suite of reports needed for the preparation of an environmental impact statement, commissioned a report yielding a costed design for a wharf and has been working with local and state governments and with other timber owners on Kangaroo Island to develop an affordable route to market, by the construction of a deep-water berth.

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

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

The fair value measurements for the biological assets have been independently valued by Geddes Management Pty Ltd ("Geddes") at 30 June 2017 and as such are categorised as Level 3 in the fair value hierarchy.

Independent expert's valuation technique

In Australia, the Association of Consulting Foresters of Australia, now a branch of the Institute of Foresters of Australia, developed an Australian Standard for Valuing Commercial Forests version 2.1 (July 2012) which is recognised within both accounting and forestry professions for its sound guidance for valuing forests. The valuation prepared by Geddes uses this standard.

The valuation method used by Geddes is the Present Value Method. This method is widely used and requires a discounted cashflow model, the model allows the valuer to estimate the value of its timber under various scenarios, and considers the impact of variables within and outside the Group's control, such as harvesting costs, internal road construction costs, haulage, wharf charges, exchange rates and international timber prices.

Due to lack of accessible local markets, the highest and best use of the Company's plantation timber is considered to be commercial timber production for export. In accordance with AASB 141 Agriculture the valuation is on a pre-tax basis.

Like any forward-looking valuation, the outputs are sensitive to the choice of assumptions.

Notes to the Consolidated Financial Statements

15. Biological assets (continued)

Significant Observable Inputs

(i) US Dollar exchange rate used is used consistently throughout the valuation model at 1.282 AUD.

(ii) The valuation is derived using a real pre-tax discount rate of 11.58% (nominal 13.92%); calculated using the CAPM formula. Material inputs to that are an Australian 10 year bond rate for risk free rate of return of 3.1% and an equity premium of 5%, a beta of 1.5, a gearing of 30% debt, an alpha of 2.0% Inflation 1.5% based on the Australian Bureau of Statistics accessed on 12 June 2017.

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

Significant Unobservable Inputs

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

(ii) The price of timber is determined with due consideration to market transactions and industry projections including:

- The price of hardwood logs / chips is determined after consideration of current market transactions, arriving at a blue gum chip price of $93.69 (USD$120.11) per green metric tonne (GMT) after discounts including dry fibre percentage and anticipated chip losses. The estimate is in 2017 real dollars.
- The prices of pine logs is determined for a range of log grades after consideration of current market transactions. It is assumed that pulp logs have no market value. Using the PF Olsen inventory data, an estimate of revenue per hectare at harvest is calculated on a property by property basis. The average price per GMT varies from $36.50 per GMT for pulp to $180.69 per GMT for P-grade. These estimates are again in real 2017 dollars.
- Costs to maintain the plantations are estimated on a per hectare per annum basis. Prior to harvest an allowance is made for in plantation roading costs. This is also denominated on a per ha basis and varies widely according to the specific conditions on each plantation property. The costs at harvest (harvesting, haulage, port access and other pre-export costs are also estimated on a per property basis for both hardwood and softwood.
- Wharf, haulage, loading and storage charges are calculated on a per hectare basis.

(iii) The fair value measurement of biological assets is sensitive to changes in the unobservable inputs which may result in a significantly higher or lower fair value measurement:

- An increase in timber production or timber prices would result in a higher fair value measurement.
- A decrease in timber production or timber prices would result in a lower fair value measurement.
- An increase in harvesting, processing, marketing or plantation maintenance costs would result in a lower fair value measurement.
- A decrease in harvesting, processing, marketing or plantation maintenance costs would result in a higher fair value measurement.

Notes to the Consolidated Financial Statements

15. Biological assets (continued)

Deferral in harvest year

A deferral in harvest year may result in higher production as a more mature tree is harvested, which may result in a changed fair value measurement, depending on the ratio of the growth rate to the discount rate. The Company may also accelerate its harvesting plan and complete first harvesting cycle one year earlier than originally planned.

The Company is aware that Wharf approval and construction may take longer than forecast. However it believes that any delays will result in a less than material change in the valuation of the Biological Asset.

Sensitivity analysis

(i) Foreign Currency Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in USD exchange rate, with all other variables held constant:

	2017 $'000	2016 $'000
Change in equity		
- Increase in the AUD to USD by 4 cent or 5.13% (June 2016: n/a)	**(8,890)**	**-**
- Decrease in the AUD to USD by 4 cents 5.13% (June 2016: n/a)	**9,850**	**-**
	960	**-**

(ii) Price Risk Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in price, with all other variables held constant:

Eucalyptus globulus	**2017 $'000**	2016 $'000
Change in equity		
- Improvement in the price by 5% (June 2016: n/a)	**9,110**	-
- Decrease in the price by 5% (June 2016: n/a)	**(9,110)**	-
	-	-

(iii) Discount rate Risk Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in discount rate, with all other variables held constant:

	2017 $'000	2016 $'000
Change in equity and profit		
- Increase in the nominal discount rate by 7.18% from 13.92% to 14.92% (June 2016: n/a)	**(3,660)**	**-**
- Decrease in the nominal discount rate by 7.18% from 13.92% to 11.92% (June 2016: n/a)	**3,960**	**-**
	300	**-**

Project Risk

The Group is exposed to the following risks relating to its timber plantations.

Notes to the Consolidated Financial Statements

15. Biological assets (continued)

(i) Supply and Demand Risk
The Group is exposed to risks arising from fluctuations in the price and sales volume of Eucalyptus globulus, Eucalyptus nitens and Pine radiata Sandalwood. When possible, the Group intends to manage this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis for projected harvest volumes and pricing. The Group has signed a Memorandum of Understanding with Mitsui Bussan Woodchip Oceania Pty Ltd, an Australian subsidiary of a Japanese conglomerate Mitsui & Co Ltd, with a view to entering into an exclusive timber off-take agreement. This Agreement will mitigate an element of demand risk.

(ii) Climate and Other Risks
The Group's timber plantations are exposed to the risk of damage from climate changes, diseases, forest fires and other natural forces. The Group has processes in place aimed at monitoring and migating those risks, including regular forest health inspections and industry pest and disease surveys. The island location also mitigates some of these risks, in addition the group is seeking certain local Government protection that is given to other Kangaroo Island businesses in preventing introduction of diseases from the mainland.

(iii) Foreign Currency Risk
Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. Timber prices are typically denominated in $US, although the main customers are located in Asia. The Group is considering using appropriate financial instruments to reduce its exposure to foreign currency risks.

16. Current liabilities – Trade and other payables

	Consolidated	
	2017	2016
	$'000	$'000
Trade payables (a)	**1,083**	240
Maintenance fund	**-**	90
PAYE tax payable	**14**	2
	1,097	332

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

b) Maintenance fund
During the prior year the Company received $90,000 of maintenance fees on the previously encumbered land, the funds have been used by the Company to improve the previously encumbered land.

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

17. Current liabilities – employee benefits

Employee benefits	**Consolidated**	
	2017	2016
	$'000	$'000
Annual Leave	**31**	16
Long service leave	**17**	11
Superannuation	**5**	2
	53	29

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

Notes to the Consolidated Financial Statements

18. Interest-bearing liabilities

	Consolidated 2017 $'000	2016 $'000
Current		
Bank borrowings [a]	**-**	-
Loan agreement [b][c]	**-**	500
Total current	**-**	500
Non-Current		
Bank borrowings [a]	**25,000**	-
Total non-current	**25,000**	-
	25,000	500

a) The Company has a $57,100,000 facility with the CBA of which $25,000,000 is drawn down ('first draw down') and $30,000,000 ('second draw down') is available to fund Wharf Construction once approval obtained, in addition further CBA assets finance will be available. Interest of 1.79% per annum based on BBSY variable rate and fees of 3.1% per annum on amounts drawn down amounted to $203,915 during the year (2016: $nil). The facility is secured by:

   a. First ranking charge over all assets including all present and acquired property (excluding Smith Bay wharf site and Ballast Head land) and plantation assets; marine leases (if applicable); wharf assets and over shares in subsidiary undertakings.

   b. A charge over Smith Bay wharf site and Ballast Head land will not be registered until the second drawdown is required. There two asset are valued at $1,100,000 by the Independent Valuer (refer to Note 13 for further detail).

   c. An account set off deed over deposited funds of $2,533,630 (refer to Note 8 for further details).

   The Company is also subject to a number of loan covenants, which have all been complied with since drawing down on the facility on 28 April 2017.

b) In June 2016, Aminac Pty Ltd as Trustee for Agrarian Management Super Fund, an entity associated with the Chair of the Company, Mr McKenzie agreed to lend $500,000 to the Company in the current financial year and to provide a loan facility up to a further $50,000. $500,000 of the loan was drawn down in June 2016. Interest will be changed at a rate of 8% per annum. The loan was secured by a first ranking mortgage over two of the Company's properties, known as Brookland Park CT Volume 5813 Folio 274 and Yerda North CT Volume 5959 Folio 964 (total book value $1,139,342). In December 2016, the loan and interest of $15,671 were repaid in full (2016: $nil).

c) During the year Alke Pty Ltd (The McKenzie Family Account No 2 A/C) of which Mr McKenzie is the managing Director provide an unsecured loan facility up to a further $250,000. $250,000 of the loan was drawn down 0n 26 April 2017 and repaid in full on the 12 May 2017. Interest was charged at 8% pa and amounts to $877 and paid in full during the year (2016: $nil).

d) The carrying amount of interest bearing liabilities approximates their fair value as the interest payable on these borrowing are close to current market rates.

19. Contributed equity

a) Issued and paid up capital

	Consolidated 2017 $'000	Consolidated 2016 $'000
Ordinary shares fully paid	**60,648**	13,037

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

b) Movements in shares on issue

	2017 Number of shares	2017 $'000	2016 Number of shares	2016 $'000
Beginning of financial year	**1,718,884**	**13,037**	1,685,678	12,783
Performance Rights Share issue	**180,000**	**3,356**	-	-
Shares issued under pro-rata non-renounceable entitlement offer announced on 9 November 2016	**513,468**	**12,837**	-	-
Share split on the basis of 10:1	**21,711,168**	**-**	-	-
Shares issued under pro-rata non-renounceable entitlement offer and placement announced on 12 April 2017	**16,750,289**	**33,501**	-	-
Share-based payment (Note 28)	**1,000**	**2**	33,206	254
Share issue costs	**-**	**(2,085)**	-	-
End of the financial year	**40,874,809**	**60,648**	1,718,884	13,037

c) Capital management

Capital consists of share capital and borrowings of $85.648 million (2016: $13.537 million).

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

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

Management monitor capital through the gearing ratio (net debt/total capital). The gearing ratios at 30 June 2017 and 30 June 2016 were as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade and other payables	**1,150**	361
Interest bearing liabilities	**25,000**	500
Less cash and cash equivalents	**(6,045)**	(895)
Net debt	**20,105**	(34)
Total equity	**95,066**	12,557
Total capital	**115,171**	12,523
Gearing Ratio	**17.46%**	(0.27%)

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

Notes to the Consolidated Financial Statements

20. Reserves

	Consolidated 2017 $'000	2016 $'000
Option and Performance Rights reserve (a)	**480**	1,895
Property, plant and equipment reserve (b)	**3,685**	3,458
	4,165	5,353

a) Option and Performance Rights reserve

	Consolidated 2017 $'000	2016 $'000
Opening balance at 1 July	**1,895**	272
Movement:		
Performance rights dated 18 January 2016	**1,733**	1,623
Performance rights dated 18 January 2016 converted into shares during the period	**(3,628)**	-
Performance rights dated 24 February 2017	**480**	-
Closing balance at 30 June	**480**	1,895

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

Performance Rights Plan

	Year	Performance Rights dated 18 January 2016 $	Performance Rights dated 24 February 2017 $	Total Performance Rights $
Non-Executive Directors				
P McKenzie	**2017**	288,905	68,605	357,510
	2016	270,455	-	270,455
G Boulton	**2017**	-	68,605	68,605
	2016	-	-	-
Executive Directors				
J Sergeant	**2017**	866,717	137,208	1,003,925
	2016	811,364	-	811,364
S Black	**2017**	288,905	68,605	357,510
	2016	270,455	-	270,455
G Holdaway	**2017**	288,905	137,209	380,715
	2016	270,455	-	270,455
Total	**2017**	**1,733,432**	**480,232**	**2,213,664**
	2016	**1,622,729**	**-**	**1,622,729**

The Performance Rights Plan ("Plan") was approved by Shareholder on 5 October 2016. The terms of the Plan involves the issue of Shares that will rank equally with all other existing Shares in all respects including voting rights and entitlement to participate in dividends and in future rights and bonus issues.

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

The Plan was developed by the Board and their intentions were announced to the market on 18 January 2016.

Notes to the Consolidated Financial Statements

20. Reserves (continued)

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

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

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

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

Performance Rights dated 18 January 2016

At the 5 October 2016 Annual General Meeting Shareholders approved performance rights dated 18 January 2016, that are triggered by meeting the following two conditions:

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

Condition 2. the share price must be equal to or greater than the original VWAP threshold share price (as set out below) at the date the shares are issued.

A summary of the Performance Rights proposed is shown below:

20 Business Day VWAP	*Shares to be issued to Managing Director Number*	*Shares to be issued per Non-Executive Director Number*	*Total Shares to be issued Number*	*Escrow period*
Post-share split				
$1.50 or above	350,000	116,670	700,010	n/a
$2.00 or above	300,000	100,000	600,000	n/a
$2.50 or above	250,000	83,330	499,990	12 months
Total	**900,000**	**300,000**	**1,800,000**	
Pre-share split				
$15.00 or above	35,000	11,667	70,001	n/a
$20.00 or above	30,000	10,000	60,000	n/a
$25.00 or above	25,000	8,333	49,999	12 months
Total	**90,000**	**30,000**	**180,000**	

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

On the 18th January 2016 the Company's share price was $1.26 (pre-split $12.60).

Notes to the Consolidated Financial Statements

20. Reserves (continued)

Since then all three 20-day VWAP share price Condition 1 hurdles have been met and Shareholder approval obtained at the 5 October 2016 AGM, resulting in the following 1,800,000 (pre-share split 180,000) ordinary shares being issued on the conversion of Performance Rights 18 January 2017:

- John Sergeant rights:
  - On 30 May 2016 350,000 (pre-share split 35,000) shares;
  - On 1 August 2016 300,000 (pre-share split 30,000) shares; and
  - On 21 October 2016 250,000 (pre-share split 25,000) shares.
- Paul McKenzie rights:
  - On 30 May 2016 116,670 (pre-share split 11,667) shares;
  - On 1 August 2016 100,000 (pre-share split 10,000) shares; and
  - On 21 October 2016 83,330 (pre-share split 8,333) shares.
- Graham Holdaway rights:
  - On 30 May 2016 116,670 (pre-share split 11,667) shares;
  - On 1 August 2016 100,000 (pre-share split 10,000) shares; and
  - On 21 October 2016 83,333 (pre-share split 8,333) shares.
- Shauna Black rights:
  - On 30 May 2016 116,670 (pre-share split 11,667) shares;
  - On 1 August 2016 100,000 (pre-share split 10,000) shares; and
  - On 21 October 2016 83,333 (pre-share split 8,333) shares.

Valuation of Performance Rights dated 18 January 2016

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

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

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

The Directors do not believe that a Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights 18 January 2018. The performance rights have been valued using the share price at the grant date and applied a probability to each tranche. The valuation is set out in the table below.

20 Business Day VWAP	**Post-split Shares to be issued**	**Share price at grant date**	**Probability**	**Valuation $**
$1.50 or above(1)	700,010	$1.92	100%	1,344,019
$2.00 or above	600,000	$1.92	98%	1,128,960
$2.50 or above	499,990	$1.9233	92%	883,182
Total	**1,800,000**			**3,356,161**

(2) The vesting conditions had already been met at the date of Shareholder approval.

Notes to the Consolidated Financial Statements

20. Reserves (continued)

The valuation has been expensed over two financial periods as set out in the table below.

	AASB 2 valuation		
	Expenses recognised 30 June 2017 $	Expense recognised 30 June 2016 $	**Total valuation $**
Total	**1,733,432**	1,622,729	**3,356,161**

Performance Rights dated 24 February 2017

At the 24 February 2017 General Meeting, Shareholders approved performance rights dated 24 February 2017, triggered by meeting the following performance condition:

õ the volume-weighted average price (VWAP) of the Company's Shares exceeds the relevant price, based on the most recently-traded 1,000,000 (pre-share split 100,000) shares.

A summary of the Performance Rights proposed is shown below:

20 Business Day VWAP	***Shares to be issued to J Sergeant & G Holdaway Number***	***Shares to be issued to P McKenzie, S Black & G Bouton Number***	***Total Shares to be issued to Directors Number***	***Escrow period***
Post-share split				
$3.50 or above	107,140	53,570	374,990	12 months
$4.25 or above	85,720	42,860	300,020	12 months
$5.00 or above	64,280	32,140	224,980	12 months
Total	**257,140**	**128,570**	**899,990**	
Pre-share split				
$35.00 or above	10,714	5,357	37,499	12 months
$42.50 or above	8,572	4,286	30,002	12 months
$50.00 or above	6,428	3,214	22,498	12 months
Total	**25,714**	**12,857**	**89,999**	

On the 24 February 2017 the Company's share price was $2.33.

At the date of this report, none of the performance rights dated 24 February 2017 vesting conditions have been met and no performance rights have vested.

On 18 May 2017, the Company announced that following the appointment of Graham Holdaway as a full time Executive Director, 128,570 (post-share split) performance rights are to be reallocated from John Sergeant to Graham Holdaway, subject to Shareholder approval at the 2017 AGM.

Valuation of Performance Rights dated 24 February 2017

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

AASB 2 sets the valuation date (termed as Grant Date) as the date at which such a right has been approved, being the date of the General Meeting, 24 February 2017.

Notes to the Consolidated Financial Statements

20. Reserves (continued)

The Directors do not believe that a Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights 18 January 2018. The performance rights have been valued using the share price at the grant date and applied a probability to each tranche. The valuation is set out in the table below.

20 Business Day VWAP	Shares to be issued	Share price at grant date	Probability	Valuation $
$3.50 or above	374,990	$2.33	55%	481,393
$4.25 or above	300,020	$2.33	14%	98,038
$5.00 or above	224,980	$2.33	1%	5,251
Total	**899,990**			**584,682**

The valuation has been expensed over two financial periods as set out in the table below.

	AASB 2 valuation		
	Expenses recognised 30 June 2017 $	Expense expected 30 June 2018 $	**Total valuation $**
Total	**480,232**	104,451	**584,683**

b) Property, plant and equipment revaluation reserve

	Consolidated	
	2017 $'000	2016 $'000
Opening balance at 1 July	**3,458**	3,323
Fair value gain on property, plant and equipment	**322**	193
Tax on fair value gain on property, plant and equipment at 30%	**(95)**	(58)
Net fair value gain on property, plant and equipment	**227**	135
Closing balance at 30 June	**3,685**	3,458

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

21. Contingent liabilities

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

Notes to the Consolidated Financial Statements

22. Reconciliation of statement of cash flows

	Consolidated	
	2017 $'000	2016 $'000
Reconciliation from the net profit after tax to the net cash flows from operations		
Net profit/(loss)	**36,086**	(2,831)
Adjustments for		
Depreciation	**125**	194
(Profit)/Loss on sale of property, plant and equipment	**(11)**	34
Net Fair value decrease/(increase) on biological assets	**(55,711)**	-
Tax on increase in fair value on property, plant and equipment	**13,699**	(58)
Share-based payment (Note 28)	**1,951**	1,780
Changes in assets and liabilities		
(Increase)/decrease in receivables and other debtors	**33**	(18)
Increase/(decrease) in trade and other payables	**(264)**	186
Net cash (used in)/from operating activities	**(4,092)**	(713)

Loan facilities

	Consolidated	
	2017 $'000	2016 $'000
Facilities available:		
Total facilities – CBA loan facility	**57,100**	-
Facilities used at 30 June	**25,000**	-

On 8 March 2017 the Company secured a funding agreement with the Commonwealth Bank of Australia (CBA or the Bank). Subject to certain conditions precedent, including all necessary development approvals, the Bank will lend up to $57.1m in total. This will support:

õ Part financing of the FIT acquisition (refer to Notes 12 and 14 for further details) $25 million, which as drawn down on 28 April 2017;

õ 100% of the anticipated construction cost of $30 million for the Company's proposed Smith Bay Wharf; plus

õ an allowance for equipment finance and working capital.

23. Events after balance date

There have been no significant events after balance date.

24. Auditor remuneration

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

	Consolidated	
	2017 $	2016 $
Amounts received or due and receivable by auditors for:		
An audit or review of the financial report of the entity and any other entity in the consolidated entity		
Grant Thornton	**53,000**	34,000
Taxation services Grant Thornton	**13,050**	10,318
	66,050	44,318

25. Key management personnel

(a) Compensation of key management personnel

	Consolidated	
	2017	2016
	$	$
Directors		
Fees	**297,389**	92,306
Superannuation	**10,944**	7,694
Share-based remuneration payment	**-**	100,000
Performance Rights	**1,072,530**	811,365
	1,380,863	1,011,365
Executives		
Executive Director	**135,083**	10,576
Superannuation	**12,833**	1,924
Share-based remuneration payment	**-**	12,500
Performance Rights	**1,141,134**	811,364
Fees	**184,177**	80,740
Share-based remuneration payment	**7,397**	2,000
	1,480,624	919,104
Total	**2,861,488**	1,930,469

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

There have been no other transactions with directors or executives.

Refer to the Remuneration Report for further information.

26. Related party disclosures

Ultimate parent

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

Subsidiaries

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

		Percentage of equity interest held by the consolidated entity	
Name	Country of incorporation	**2017** **%**	2016 %
Cineria Pty Ltd[(i)]	Australia	**100**	100
APR Pty Ltd	Australia	**100**	100
RuralAus Plantation Management Pty Ltd[(ii)]	Australia	**100**	100
RuralAus Finance Limited[(ii)]	Australia	**100**	100
RuralAus Landholdings Limited[(ii)]	Australia	**100**	100
RuralAus Plantation Timber Pty Ltd[(ii)]	Australia	**100**	100

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

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

Key management personnel

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

26. Related party disclosures (continued)

Transactions with related parties

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

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

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

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

Related party transactions

	Consolidated	
	2017	2016
	$	$
Directors transaction		
Income: Annual lease payment(1)	**23,648**	23,483
Expense: Loan interest(2)	**(16,548)**	-
Liability: Loan agreement(2)	**-**	500,000
Liability: Lease payment received in advance(1)	**-**	23,648

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

(2) In June 2016, Aminac Pty Ltd as Trustee for Agrarian Management Super Fund, an entity associated with the Chair of the Company, Mr McKenzie agreed to lend $500,000 to the Company in the current financial year and to provide a loan facility up to a further $50,000. $500,000 of the loan was drawn down in June 2016. Interest will be changed at a rate of 8% per annum. The loan is secured by a first ranking mortgage over two of the Company's properties, known as Brookland Park CT Volume 5813 Folio 274 and Yerda North CT Volume 5959 Folio 964 (total book value $1,139,342). In May 2017 the loan and interest of $15,671 were repaid in full (2016: $nil).

During the year Alke Pty Ltd (The McKenzie Family Turst No 2 A/C) of which Mr McKenzie is the managing Director provide a loan facility up to a further $250,000. $250,000 of the loan was drawn down on 26 April 2017 and repaid in full on 8 May 2017. Interest of $877 was charged and paid during the year (2016: $nil).

27. Parent Entity disclosures

Information relating to Kangaroo Island Plantation Timbers Ltd:

	2017	2016
	$'000	$'000
Current assets	6,431	755
Non-current assets	7,287	3,197
Intercompany assets	64,578	5,070
Total assets	**78,296**	9,022

Notes to the Consolidated Financial Statements

27. Parent Entity Disclosures (continued)

	2017 $'000	2016 $'000
Current liabilities	654	713
Non-current liabilities	25,297	-
Total liabilities	**25,951**	713
Total net assets	**52,345**	8,309
Issued capital	**60,648**	**13,037**
Option and performance rights reserve	**480**	**1,895**
Property, plant and equipment reserve	**895**	**800**
Retained earnings	**(9,678)**	**(7,423)**
Total shareholders' equity	**52,345**	**8,309**
(Loss) of the parent entity	2,255	(2,355)
Total comprehensive (loss)	**2,255**	**(2,355)**

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

28. Share-based payments

Recognised share-based payment expenses
The expense recognised for employee services received during the year is shown in the table below:

	Consolidated	
	2017 $	2016 $
Directors fees in respect of current year [(a)]	**-**	112,500
Directors fees in respect of prior year [(a)]	**-**	40,834
Performance Rights [(a)]	**2,213,664**	1,622,664
Paid to employees during the year under the EESP [(b)]	**2,000**	2,000
Paid in lieu of consulting fees [(c)]	**7,397**	2,000
Total expense from security-based payment transactions	**2,223,061**	1,779,998

Equity-settled share-based payment transactions, on a post-share split basis[(d)], is a follows:

(a) The directors hare-based payments:
- During the year Mr McKenzie received 300,000 shares under the Performance Rights Plan (2016: 31,250 post-split shares were issued in lieu director's fees totaling $25,000).
- During the year Mr Sergeant received 900,000 shares under the Performance Rights Plan (2016: 78,130 post-split shares were issued lieu of director's fees totaling $50.000).
- During the year Mr Holdaway received 300,000 shares under the Performance Rights Plan (2016: 66,670 post-split shares were issued in lieu of director's fees totaling $39,167).
- During the year Ms Black received 300,000 shares under the Performance Rights Plan (2016: 66,670 post-split shares were issued in lieu of Ms Black's director's fees totaling $39,167).

(b) $2,000 (2016: $2,000) were paid to employees during the year under the Executive & Employee Share Loan Scheme (EESP). Under the EEPS two employees were issued 500 (2016: 660) post-split shares each.

Notes to the Consolidated Financial Statements

28. Share-based payments (continued)

(c) Shares issued in lieu of consulting fees

- Peter Lockett was appointed as Approvals Manager on 8 May 2017. Mr Lockett's processional services are invoiced by Seaview Corporate Services Pty Ltd, of which, Mr Lockett has effective control. During the year $7,397 (2016: $nil) of these services have been accrued and are payable in ordinary Shares.
- During the prior year Ms Allinson was issued 660 post-split shares in payment of professional fees invoices of $2,000 from Allinson Accounting Solutions Pty Ltd.

(d) Share split of 10 shares for every 1 share held occurred on the 8 March 2017.

Performance Rights Plan

	Year	Performance Rights dated 18 January 2016 $	Performance Rights dated 24 February 2017 $	Total Performance Rights $
Non-Executive Directors				
P McKenzie	**2017**	288,905	68,605	357,510
	2016	270,455	-	270,455
G Boulton	**2017**	-	68,608	68,605
	2016	-	-	-
Executive Directors				
J Sergeant	**2017**	866,727	137,208	1,003,925
	2016	811,365	-	811,365
S Black	**2017**	288,905	68,605	357,510
	2016	270,455	-	270,455
G Holdaway	**2017**	288,905	137,209	426,114
	2016	270,455	-	270,455
Total	**2017**	**1,733,432**	**480,232**	**2,213,664**
	2016	1,622,729	-	1,622,729

Refer to Note 20 for further details.

29. Commitments

Commitments

The Group has commission a number of studies and paid $0.8 million towards a $3.8 million US$2.9 million pontoon, all the commitment at 30 June 2017 can be cancelled. In addition the Group has leased two offices during the year ended 30 June 2017.

	Consolidated Lease Commitments		Consolidated Other Commitments	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Due no later than one year	**31**	-	**3,021**	-
Later than one year but no later than 2 years	**-**	-	**-**	-
Later than 2 years but no later than 5 years	**-**	-	**-**	-
Later than 5 years	**-**	-	**-**	-
Total	**31**	-	**3,021**	-

There are no other commitments at 30 June 2017.

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 2017 are in accordance with the Corporations Act 2001, including:
    - Giving a true and fair view of its financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
    - Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and
- The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a); and
- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2017.

On behalf of the Board

Paul McKenzie

Chairman

Dated this 25th day of September 2017

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Independent Auditor's Report
To the members of Kangaroo Island Plantation Timbers Limited

Auditor's Opinion

We have audited the financial report of Kangaroo Island Plantation Timbers Limited (the Company), and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2017, 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, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying consolidated financial report of Kangaroo Island Plantation Timbers Limited, is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty relating to Going Concern

We draw attention to Note 2(y) in the financial report which indicates that the consolidated entity incurred a net cash outflow from operating activities of $4,092,000 during the year ended 30 June 2017. These conditions, along with other matters as set forth in Note 2(y), 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. Our opinion is not modified in relation to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial report of the current period. These matters were addressed in the context of our audit of the consolidated financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Valuation of land – refer to Note 13	
The Group has assessed the route to market for its biological assets and has determined the principal and most advantageous market for the land is forestry land. Estimating the fair value of land is a complex process involving a number of judgements and estimates regarding various inputs. Due to the nature of the asset, the valuation technique includes a model that uses a number of inputs from internal and external sources. This area is a key audit matter due to the significant level of management judgement, including: • Estimated price per hectare taking into consideration land location, land improvements, land location, land improvements, plantation details and occupancy; and • The best use of the land.	Our procedures included, amongst others: • Obtaining the external valuation for land; • Assessing the expertise and qualification of management's expert; • Identifying key assumptions in the valuation and comparing to the market data and supporting documentation; • Testing mathematical accuracy of the valuation; and • Assessing the appropriateness of the related disclosure within the financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of biological asset – refer to Note 15	
Biological assets which include mature and immature radiata pine and eucalypt plantations are stated at fair value less estimated point of sale costs. In the past, the Group has estimated this to be zero on the basis without an export facility, the trees have no value. The Group now considers the development of wharf infrastructure is more probable than not and as a result recognised biological asset in the statement of financial position. There is significant judgement involved in the Group's assessment of the recognition criteria of the biological assets about the future results of the assets and discount rates applied to the future cash flow forecasts. This area is a key audit matter due to the level of significant management judgement, including: • Identification and measurement of hardwood and softwood resources; • Assumptions made by management in the discounted cash flow model; • The assumptions used in relation to the harvesting plans.	Our procedures included, amongst others: • Obtaining the external valuation for biological assets; • Evaluating managements experts in relation to compilation of the assumptions used in the valuation; • Assessing the adequacy of the expert by researching their experience and qualification to value the biological assets; • Reviewing the Board paper in relation to consideration of the appropriate basis for the fair value of the biological assets; • Considering the events that have caused the Board to reassess the probability of development of the wharf infrastructure; • Performing sensitivity analysis on key assumptions; • Utilising the expertise of an internal Corporate Finance expert to assess the appropriateness of the discount rate; and • Assessing the appropriateness of the related disclosures within the financial statements.
Valuation of performance rights – refer to Note 20	
During the 2016 financial year the Group issued performance rights in lieu of directors' remuneration. The performance rights had a grant date of October 2016 and as a result the valuation as at 30 June 2016 included judgements and estimates in relation to the grant date. Further performance rights have been granted in February 2017 which includes judgements and estimates in the determination of their fair value. This area is a key audit matter due to the significant degree of judgement used in the valuation of the performance rights.	Our procedures included, amongst others: • Assessing management's valuation of the performance rights at the grant date to determine if the assumptions and estimates used at 30 June 2016 remain appropriate; • Obtaining the valuation of the fair value of the performance rights granted during the year: • Agreeing share based payments and key inputs to the underlying agreements; • Identifying key assumptions in the valuation performance rights granted during the year and comparing to the market data and supporting documentation available at the date of grant of the performance rights; • Verifying the mathematical accuracy of the valuation model for share based payments; and • Assessing the appropriateness of the related disclosures within the financial statements.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.
If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' 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* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Kangaroo Island Plantation Timbers Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S K Edwards
Partner - Audit & Assurance

Adelaide, 25 September 2017

Investors’ supplementary information

As at 20 September 2017

The information contained below is to be read in conjunction with the annual report of Kangaroo Island Plantation Timbers Ltd dated 30 June 2017.

Details of top 20 shareholders

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

Rank	Name	Units	% of Units
1.	J P MORGAN NOMINEES AUSTRALIA LIMITED	16,051,440	39.27
2.	PHALAENOPSIS PTY LTD <SERGEANT FAMILY A/C>	2,099,664	5.14
3.	AMINAC PTY LTD <AGRARIAN MANAGEMENT S/F A/C>	2,000,000	4.89
4.	MR PETER ROBIN JOY <TRADING A/C>	2,000,000	4.89
5.	NATIONAL NOMINEES LIMITED	1,904,830	4.66
6.	WASHINGTON H SOUL PATTINSON AND COMPANY	1,821,011	4.46
7.	AOTEAROA INVESTMENT COMPANY PTY LIMITED <ROBERTS INVESTMENT NO 2 A/C>	1,500,000	3.67
8.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,199,093	2.93
9.	ALKE PTY LTD <THE P MCKENZIE FAMILY N2 A/C>	522,360	1.28
10.	MR DAVID NEIL CONSTABLE	515,500	1.26
11.	MR CRAIG GRAEME CHAPMAN <NAMPAC DISCRETIONARY A/C>	500,000	1.22
12.	MR JOHN DAVID SERGEANT <SERGEANT FAMILY S/F A/C>	474,366	1.16
13.	HOLDAWAY & HOLDAWAY PTY LTD	465,770	1.14
14.	MR JOHN DAVID SERGEANT	418,230	1.02
15.	SHANDORA ONE PTY LTD <BENGER SUPER FUND A/C>	402,130	0.98
16.	MR GRAHAM IAN HOLDAWAY + MRS KRISTINA MARY IRVING HOLDAWAY <G & K SUPER FUND A/C>	401,015	0.98
17.	BLACK STUMP REGIONAL PTY LTD <TAYBRIC FAMILY A/C>	385,000	0.94
18.	G CHAN PENSION PTY LTD <CHAN SUPERANNUATION FUND A/C>	352,400	0.86
19.	ONE MANAGED INVESTMENT FUNDS LIMITED FOLKESTONE MAXIM A-REIT SECURITIE	325,000	0.80
20.	BT PORTFOLIO SERVICES LIMITED <WARRELL HOLDINGS S/F A/C>	310,000	0.76
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		**33,647,809**	**82.32**
Total Remaining Holders Balance		**7,227,000**	**17.68**

Distribution of shareholder numbers

Range	Total holders
1 - 1,000	362
1,001 - 5,000	109
5,001 - 10,000	50
10,001 - 100,000	117
100,001 - 9,999,999,999	33
Total	**671**

Number of shareholders with less than a marketable parcel of securities

As at 20 September 2017, there were a total of 243 shareholders with less than a marketable parcel of securities held in Kangaroo Island Plantation Timbers Ltd.

Investors' supplementary information (continued)

Details of substantial shareholders

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

Name of substantial shareholder	Registered holder of the shares	Number of shares held	% of total shares	Associate of substantial shareholder
Samuel Terry Asset Management Pty Ltd	JP Morgan Nominees Australia Limited	12,498,544	30.58%	Fred Woollard, Nigel Burgess
	Mr Frederick Woollard	1,965	0.005%	Fred Woollard
		12,500,509	30.58%	
Supervised Investments Limited	JP Morgan Nominees Australia Limited	2,768,240	6.77%	David Constable
	David Neil Constable	515,500	1.26%	David Constable
	Ida Constable	12,223	0.03%	Ida Constable
		3,295,963	8.06%	
John Sergeant	John David Sergeant	418,230	1.02%	John Sergeant
	Phalaenopsis Pty Ltd	2,099,664	5.14%	John Sergeant
	Sergeant Family	474,366	1.16%	John Sergeant
	Superannuation Fund Jennifer Sergeant	12,710	0.03%	John Sergeant
		3,004,970	7.35%	
Paul McKenzie	Aminac Pty Ltd <Agrarian Management S/F A/C>	2,000,000	4.89%	Paul McKenzie
	Alke Pty Ltd (The McKenzie Family Trust No 2 A/C)	522,360	1.28%	Paul McKenzie
		2,522,360	6.17%	

Unlisted options

There are no unlisted options.

Performance rights

There are 899,990 performance rights shares that have not been issued.

Types of securities and voting rights

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

Number and class of shares held in escrow

There are currently no shared held in escrow.

On-Market Buy Backs

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

Securities Exchange

The Company is listed on the Australian Securities Exchange.