Kangaroo Island Plantation Timbers Ltd

ACN 091 247 166

Results for Announcement to the Market
Appendix 4D

Current reporting period: Half-year ended 31 December 2018
Previous corresponding reporting period: Half-year ended 31 December 2017

Results for Announcement to the Market

	Percentage Change %	Amount $'000
Revenue – continued operations	12% increase	93
Loss after tax – continued operations	19% increase	(3,642)
Net loss attributable to members	19% increase	(3,642)

Dividends paid or proposed

No dividends have been paid or proposed during the period.

Brief explanation of revenue and net loss

Loss from continuing operations increased by $603,000, which is primarily as a result of:

	2018 Income/ (Expense) $'000s	**2017 Income/ (Expense) $'000s**	**Increase/ (Decrease) in profits $'000s**
Wharf development costs expensed decreased	(1,314)	(1,652)	338
Fees and interest on the CBA loan decreased	(681)	(1,072)	391
Directors fees have increased due to fee increases and an additional director	(561)	(375)	(186)
Higher legal fees	(148)	(30)	(118)
Income tax benefit increased	244	1,239	(995)
Other changes	(1,182)	(1,149)	**(33)**
Net comprehensive loss	**(3,642)**	**(3,039)**	**(603)**

NTA backing

	Half-year Ended 31 December 2018	Half-year Ended 31 December 2017
Net tangible asset backing per security	$2.75	$2.03

The increase is the result of the acquisition of wharf asset offset by an increase in operational losses.

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

The Group has not gained or lost control of any entities during the half-year ended 31 December 2018.

Details of dividends

Not applicable

Details of associates or joint ventures

Not applicable

Review dispute or qualification

The Group is not aware of any review, dispute or qualification for the accounts for the half-year ending 31 December 2018.

The half-year financial report should be read in conjunction with the annual report for the year ended 30 June 2018.

Kangaroo Island Plantation Timbers

Interim Financial Report

ABN 19 091 247 166

For the half year ended

31 December 2018

Contents

Directors' Report

For the half-year ended 31 December 2018

Your directors submit their report for the half-year ended 31 December 2018 for Kangaroo Island Plantation Timbers Limited ("Company") and its controlled entities ("Group").

Directors

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

Director	Position	Appointed to Board	Last elected or re-elected at GM	Resigned
Paul McKenzie(1)	Non-Executive Chair	29 April 2005	10 November 2017	-
John Sergeant(2)	Managing Director	2 March 2013	18 November 2014	-
Shauna Black(3)	Executive Director	17 March 2015	8 September 2015	-
Graham Holdaway(4)	Executive Director	17 March 2015	5 October 2016	-
Gregory Boulton AM	Independent Non-Executive	1 November 2016	16 October 2018	-
Keith Lamb(5)	Independent Non-Executive	15 October 2018	-	-

(1) Appointed Chair on 1 July 2009
(2) Appointed Managing Director on 1 January 2015
(3) Appointed Executive Director on 1 May 2016
(4) Appointed Executive Director on 1 April 2016
(5) Subject to Shareholders' approval at the next shareholders' meeting.

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

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

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

Interest in ordinary Shares

	Opening interest at 1 July 2018	Net changes during the period	Performance Rights Issued	Closing interest at 31 December 2018
Paul McKenzie(1)	2,654,860	-	-	2,654,860
John Sergeant(2)	3,119,970	-	-	3,119,970
Graham Holdaway (3)	871,785	-	-	871,785
Shauna Black(4)	456,670	-	-	456,670
Gregory Boulton AM(5)	176,230	-	-	176,230
Keith Lamb	**-**	**-**	**-**	**-**
Total	**7,279,515**	**-**	**-**	**7,279,515**

(1) Paul McKenzie's Shares comprise:
  a. 2,132,500 (prior period: 2,132,500) held by Aminac Pty Ltd ATF Agrarian Management S/F A/C of which Mr McKenzie is the Managing Director; and
  b. 522,360 (prior period: 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 (prior period: 2,099,664) held by Phalaenopsis Pty Ltd ATF Sergeant Family Trust of which Mr Sergeant has effective control;
  b. 418,230 (prior period: 418,230) direct interest;
  c. 596,366 (prior period: 596,366) held by Sergeant Family Superannuation Fund of which Mr Sergeant has effective control; and
  d. 5,710 (prior period: 5,710) held by Ms J Sergeant; Ms Sergeant is Mr Sergeant's wife.
(3) Graham Holdaway's Shares comprise:
  a. 406,015 (prior period: 406,015) 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 (prior period: 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 (prior period: 66,670) Shares; and
- b. 390,000 (prior period: 390,000) held by Black Stump Regional Pty Ltd ATF the Taybric Family Trust of which Ms Black has effective control.

(5) Gregory Boulton's Shares comprise:
- **a.** 176,230 (prior period: 176,230) held by G Boulton Pty Ltd ATF <Greg Boulton Family S F A/C>.

(6) On 18 February 2019 the Group announced the successful completion of $10 million Placement to sophisticated and professional investors of 5.0 million shares at $2.00 per share, of which 325,000 shares are to be issued to the following directors, subject to shareholder approval:
- a. Paul McKenzie 125,000
- b. John Sergeant 125,000
- c. Shauna Black 25,000
- d. Graham Holdaway 25,000
- e. Keith Lamb 15,000
- f. Greg Boulton 10,000

Interest in Performance Rights

	Year	Performance Rights dated 16 October 2018 $	Performance Rights dated 10 November 2017 $	Performance Rights dated 24 February 2017 $	Total Performance Rights $
Non-Executive Directors					
P McKenzie	**Dec 2018**	6,777	4,342	-	11,119
	Jun 2018	-	15,851	14,922	30,773
G Boulton	**Dec 2018**	6,777	4,342	-	11,119
	Jun 2018	-	15,851	14,922	30,773
K Lamb[(1)]	**Dec 2018**	4,342	-	-	4,342
	Jun 2018	-	-	-	-
Executive Directors					
J Sergeant	**Dec 2018**	13,554	8,683	-	22,237
	Jun 2018	-	31,702	29,842	61,544
S Black	**Dec 2018**	6,777	4,342	-	11,119
	Jun 2018	-	15,851	14,922	30,773
G Holdaway	**Dec 2018**	13,554	8,683	-	22,237
	Jun 2018	-	31,702	29,843	61,545
			-		
Total	**Dec 2018**	**51,781**	**30,391**	**-**	**82,172**
	Jun 2018	-	110,957	104,451	215,408

(1) Mr K Lamb was appointed as a Non-Executive Director on 15 October 2018, under his agreement he is entitled to Performance Rights dated 16 October 2018 under the Performance Rights Plan, on the same basis as other non-executive Director's subject to Shareholder approval.

Performance Rights Plan

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.

Directors' Report continued

For the half-year ended 31 December 2018

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 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 has begun to better reflect the underlying value of its assets, there remains a substantial valuation gap that will be realised when a sustainable forestry industry structure is created on Kangaroo Island.

Performance Rights dated 16 October 2018 and 10 November 2017

At the 16 October 2018 General Meeting, Shareholders approved performance rights dated 16 October 2018, 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 10 November 2017 expired on 9 November 2018 and were replaced with Performance Rights dated 16 October 2018. The Performance Rights dated 10 November 2017, were approved by Shareholders on 10 November 2017 and had identical performance conditions and expired on 9 November 2018.

A summary of the Performance Rights is shown below:

	Shares to be issued to directors:			
20 Business Days VWAP	J Sergeant & G Holdaway Number	P McKenzie, S Black & G Boulton Number	Total Shares Number	Escrow Period
$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**	

Valuation of Performance Rights dated 16 October 2018

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

AASB 2 sets the valuation date (termed as Grant Date) as the date at which such a right has been approved, being the date of the General Meeting, 16 October 2018. In addition, the Company has announced that it intends to seek shareholder approval for the issue of Performance Rights 16 October 2018 to newly-appointed non-executive director Keith Lamb, in amounts and on terms identical to those applying to other non-executive directors.

The Directors do not believe that Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights. The performance rights have been valued using the share price at the Grant Date with a probability applied to each tranche. The Rights expire on 15 October 2019. The valuation is based on the probability of achieving VWAP and the share price at 16 October 2018 of $2.05, set out in the table below.

Directors’ Report continued

For the half-year ended 31 December 2018

20 Business Days VWAP	Shares to be issued	6 months 31 Dec 2018 $	6 months 30 Jun 2019 $	30 Jun 2020 $	Total Valuation $
$3.50 or above	374,990	28,458	68,338	33,888	130,684
$4.25 or above	300,020	1,498	3,598	7,205	12,300
$5.00 or above	224,980	434	1,043	3,135	4,612
Total	**899,990**	**30,390**	**72,978**	**44,228**	**147,596**

Valuation of Performance Rights dated 10 November 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.

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, 10 November 2017.

The Directors do not believe that Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights. The performance rights have been valued using the share price at the Grant Date with a probability applied to each tranche. The Rights expire on 9 November 2018. The valuation is based on the probability of achieving VWAP and the share price at 10 November of $2.20, set out in the table below.

20 Business Days VWAP	Shares to be issued	6 months 31 Dec 2018 $	6 month 30 Jun 2018 $	6 months 31 Dec 2017 $	Total Valuation $
$3.50 or above	374,990	21,950	78,864	39,432	140,246
$4.25 or above	300,020	1,788	6,424	4,989	13,201
$5.00 or above	224,980	421	1,150	3,019	4,950
Total	**899,990**	**24,159**	**86,438**	**47,440**	**158,397**

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.

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 Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights. The performance rights have been valued using the share price at the Grant Date with a probability applied to each tranche. The valuation is set out in the table below.

20 Business Days VWAP	Shares to be issued	6 months 30 Jun 2017 $	6 months 31 Dec 2017 $	Total Valuation $
$3.50 or above	374,990	412,623	68,771	481,394
$4.25 or above	300,020	65,359	32,679	98,038
$5.00 or above	224,980	2,250	3,001	5,251
Total	**899,990**	**480,232**	**104,451**	**584,683**

Directors' Report continued

For the half-year ended 31 December 2018

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.

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 Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights. The performance rights have been valued using the share price at the Grant Date with a probability applied to each tranche. The valuation is set out in the table below.

20 Business Days VWAP	Shares Number	6 months 30 Jun 2016 $	6 months 31 Dec 2016 $	6 months 30 Jun 2017 $	Total Valuation $
$1.50 or above(1)	700,010	649,843	585,089	109,086	1,344,019
$2.00 or above	600,000	545,860	491,468	91,631	1,128,960
$2.50 or above	499,990	427,025	384,473	71,683	883,182
Total	**1,800,000**	**1,622,728**	**1,461,031**	**272,400**	**3,356,161**

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

Review and results of operations

The Group has had the most active and transformative six-month period in its history. Considerable progress has been made towards the Group's deep water wharf. Substantial progress has been made in the compilation of an environmental impact study.

The Group experienced a 12% increase in revenue ($93,000) from continuing operations for the period, as compared to the same period last year ($83,000). This was primarily attributable to a $12,000 increase in bank interest received.

Losses from continuing operations increased by $603,000 compared with the profit in the 2017 comparable period, primarily as a result of:

	2018 Income/ (Expense) $'000s	2017 Income/ (Expense) $'000s	Increase/ (Decrease) in profits $'000s
Wharf development costs expensed decreased	(1,314)	(1,652)	338
Interest and fees on the CBA loan, that was drawn down in March 2017, decreased	(681)	(1,072)	391
Directors fees have increased due to the full year cost of the additional director	(561)	(375)	(186)
Higher legal fees	(148)	(30)	(118)
Income tax benefit increased	244	1,239	(995)
Other changes	**(1,182)**	**(1,149)**	**(33)**
Net comprehensive loss	**(3,642)**	**(3,039)**	**(603)**

Directors' Report continued

For the half-year ended 31 December 2018

Submission of Draft Environmental Impact Statement

Kangaroo Island Plantation Timbers (KPT) submitted its Draft Environmental Impact Statement (Draft EIS) for the proposed Kangaroo Island Seaport in late September 2018. The Draft EIS addresses the requirements and guidelines specified by South Australia's Development Assessment Commission.

The Draft EIS and its associated studies demonstrate that the KI Seaport can be built and operated in a way that protects the environment, while providing significant social and economic advantages to South Australia, and to the Kangaroo Island community in particular.

Importantly, the Draft EIS demonstrates that construction and operation of the facility would have no negative effects on the land-based abalone farm that is also located at Smith Bay. It also shows that there would be no significant negative effect on any matters of national environmental significance.

The KI Seaport, once built, is expected to unlock more than 250 full-time jobs, most of them on Kangaroo Island, and to inject more than $50 million a year into the South Australian economy. The project has not changed in scope or scale since it was originally declared a Major Development in February 2017, although the design of the jetty structure has been modified to reduce the environmental impact of the proposed seaport.

During the period KPT received preliminary feedback from the South Australian and Commonwealth governments on the Draft Environmental Impact Statement (Draft EIS) for the proposed Kangaroo Island Seaport. In January 2019, KPT submitted the revised EIS that has been modified to address all government department and agency comments and suggestions.

The Minister for Planning will advise when (and for how long) the EIS is available for public consultation. Formal submissions made during the public consultation will be considered and answered in a follow-up Response Document. The EIS and the Response Document will together form the Final EIS to be lodged with State and Commonwealth governments for their decision.

MoU with Flinders Ports

During the period, the Company announced that it had signed a Memorandum of Understanding (MoU) with Flinders Ports Pty Ltd, under which the parties will work together on an exclusive basis to achieve a port operating model that is designed to produce an optimal solution for the port owner, port operator and port users, having regard to the outcomes achieved by Flinders Ports at the other South Australian ports that it variously owns, operates and/or provides port management and related services.

Flinders Ports is South Australia's leading port operator, with seven ports located at Port Adelaide, Port Lincoln, Port Pirie, Thevenard (Ceduna), Port Giles, Wallaroo and Klein Point. It also operates and provides services at other third-party ports in South Australia.

The Board believes that Flinders Ports' ability to manage and deliver services at the new KI Seaport, using existing efficiencies from operating numerous ports in the region, makes it an ideal partner for KPT.

The MoU commits the parties to work together to achieve a mutually beneficial outcome. It sets out a process for progressing towards a full port operating agreement, by locking in agreed milestones as a condition for maintaining exclusivity.

The parties have also agreed in the MoU to share and protect each other's intellectual property in relation to marine operations at the KI Seaport.

Log sale and purchase agreement with Mitsui

KPT announced on 5 October 2018 that it had signed a five-year Log Sale and Purchase Agreement with Mitsui. This agreement establishes key terms under which the softwood (pine) timber resource on Kangaroo Island will be monetised.

The agreement provides that Mitsui will buy softwood logs from KPT on a free-on-board basis or equivalent. Pricing is determined by prevailing market prices for various defined log grades and lengths. Softwood represents about 20 per cent of the Company's standing timber. In addition to pine logs, the agreement has flexibility to include large diameter hardwood logs that are considered too valuable to chip.

Directors' Report continued

For the half-year ended 31 December 2018

Appointment of Keith Lamb as a director on 15 October 2018

Mr Lamb holds masters-level qualifications in Forestry and in Business Administration. He was Director of Operations and Portfolio Manager for New Forests Asset Management Pty Ltd (New Forests) from 2005 until 2017, with responsibility for $2.5bn in timberland and related agricultural and industrial assets. Mr Lamb has also served as a director of several forestry companies and trusts within and outside the New Forests group. His early career included both government and non-government forestry roles.

In addition to forestry operations management, Mr Lamb has considerable expertise in raising and deploying institutional capital for direct investment in forestry and agro-forestry projects. The Company may find this useful, should it elect to expand its business in this way in future.

Bringing Mr Lamb into the business will reduce key person risk, while giving the Company access to Mr Lamb's experience in managing and expanding operating forestry businesses.

Share issue

At 31 December 2018 and as at the date of this report the ordinary shares on issue:

	No of Ordinary Fully paid Shares
As at 1 July 2018	**50,897,512**
Shares issued as payment for services rendered by Seaview Corporate Services Pty Ltd totalling $25,000 being $12,500 on 1 August 2018 and 9 October 2018	12,073
Shares issued to contractors in lieu of services rendered by Allinson Accounting Solutions Pty Ltd with a total value of $3,000 on 9 October 2018	1,476
At 31 December 2018	**50,911,061**
Placement announced on 18 February 2019, shares issued on 26 February 2019	4,670,000
At the date of this report	**55,581,061**

Events after balance date

On 18 February 2019 the Group announced the successful completion of $10 million Placement to sophisticated and professional investors of 5.0 million shares at $2.00 per share and a Share Purchase Plan ("SPP") of up to 0.50 million shares at $2.00 per share. On 26 February 2019, 4,670,000 Placement Shares were issued, the remaining 330,000 are to be issued to key management personnel, subject to shareholder approval. The SPP shares are expected to be issued on 20 March 2019.

The Group is not aware of any other significant events occurring after 31 December 2018.

Rounding

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

Dividends

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

Auditor independence and non-audit services

The directors have received the auditor's independence declaration, which is included on page 12 of this report and forms part of this report.

Signed in accordance with a resolution of the directors.

Paul McKenzie

Paul McKenzie
Chairman
Dated this 26th February 2019

Grant Thornton House
Level 3
170 Frome Street
Adelaide, SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666
F +61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Iain Kemp

I S Kemp
Partner – Audit & Assurance

Adelaide, 26 February 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2018

	Notes	Consolidated 31 December 2018 $'000	 31 December 2017 $'000
Rent	4	**56**	55
Equipment hire	4	**7**	10
Bank interest		**30**	18
Revenue		**93**	83
Sale of property plant and equipment		**-**	4
Other income	4	**17**	2
Fair value gain on biological assets		**-**	-
Forestry expenses	4	**(610)**	(589)
Deep water wharf development costs		**(1,314)**	(1,652)
Administrative expenses		**(221)**	(116)
Other expenses	4	**(1,170)**	(938)
Finance costs		**(681)**	(1,072)
(Loss)/Profit before income tax		**(3,886)**	(4,278)
Income tax benefit/(expense)	5	**244**	1,239
Net (loss)/Profit for the period from continuing operations		**(3,642)**	(3,039)
Profit/(loss) for the period attributable to members of the parent		**(3,642)**	(3,039)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Net fair value gain/(loss) in property, plant and equipment		**-**	-
Other comprehensive income for the period net of tax		**(3,642)**	(3,039)
Total comprehensive income/(loss) for the period attributable to members of the parent		**(3,642)**	(3,039)
Basic and diluted earnings per share		**EPS in cents**	EPS in cents
Post-share split	6	**(7.16)**	(7.2)

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	Consolidated 31 December 2018 $'000	30 June 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**4,347**	6,727
Trade and other receivables		**141**	13
Other current assets		**345**	697
Total current assets		**4,833**	7,437
Non-current assets			
Property, plant and equipment	8	**59,021**	57,969
Biological assets	9	**107,816**	107,816
Deferred tax asset	5	**8,737**	8,767
Other non-current assets		**5**	5
Total non-current assets		**175,579**	174,557
TOTAL ASSETS		**180,412**	181,994
LIABILITIES			
Current liabilities			
Trade and other payables		**1,094**	1,720
Employee benefits		**173**	66
Total current liabilities		**1,267**	1,786
Interest bearing liabilities	10	**27,700**	25,000
Deferred tax liabilities	5	**27,329**	27,558
Total non-current liabilities		**55,029**	52,558
TOTAL LIABILITIES		**56,296**	54,344
NET ASSETS		**124,116**	127,650
EQUITY			
Contributed equity	11	**79,989**	79,963
Reserves	12	**3,720**	3,796
Accumulated profits/(losses)		**40,407**	43,891
TOTAL EQUITY		**124,116**	127,650

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

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2018

	Notes	Consolidated 31 December 2018 $'000	 31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers and other income		82	78
Payments to suppliers and employees		(1,654)	(1,493)
Payment to wharf development expense suppliers		(1,364)	(1,636)
Interest received		29	18
Tax refund		45	-
Borrowing costs		(678)	(888)
Net cash flows (used in)/from operating activities		(3,540)	(3,921)
Cash flows from investing activities			
Purchase of plant and equipment		(1)	(4,513)
Purchase of Wharf development assets		(1,537)	-
Proceeds from the sale of plant and equipment		-	4
Net cash flows from/(used in) investing activities		(1,538)	(4,509)
Cash flows from financing activities			
Proceeds from share issue		-	19,280
Payment for share issue costs		(2)	(1,352)
Proceeds from borrowing		2,700	3,000
Repayment of borrowings		-	(3,000)
Net cash flows (used in)/from financing activities		2,698	17,928
Net increase/(decrease) in cash and cash equivalents		(2,380)	9,498
Cash and cash equivalents at beginning of period		6,727	6,045
Cash and cash equivalents at end of period	7	4,347	15,543

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2018

	Issued Capital $'000	Treasury Shares $'000	Property, plant & equipment Revaluation Reserve $'000	Option Reserve $'000	Accumulated Profits/ (Losses) $'000	Total $'000
Balance at 1 July 2017	61,098	(450)	3,685	480	30,253	95,066
Profit for the period	-	-	-	-	13,052	13,052
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	13,052	13,052
Share issued	20,000	-	-	-	-	20,000
Share issue costs	(1,050)	-	-	-	-	(1,050)
Share issue costs tax	315	-	-	-	-	315
Net shares issued	19,265	-	-	-	-	19,265
Performance rights lapsed	-	-	-	(586)	586	-
Share-based payment	50	-	-	217	-	267
Transaction with owners	19,315	-	-	(369)	586	19,532
Balance at 30 June 2018	80,413	(450)	3,685	111	43,891	127,650
Balance at 1 July 2018	**80,413**	**(450)**	**3,685**	**111**	**43,891**	**127,650**
Loss for the period	-	-	-	-	(3,642)	**(3,642)**
Other comprehensive income	-	-	-	-	-	**-**
Total comprehensive income	-	-	-	-	(3,642)	**(3,642)**
Shares issue	-	-	-	-	-	-
Share issue costs	(2)	-	-	-	-	(2)
New shares issued	(2)	-	-	-	-	(2)
Performance rights lapsed	-	-	-	(158)	158	-
Share-based payments	28	-	-	82	-	110
Transactions with owners	26	-	-	(76)	158	108
Balance at 31 December 2018	**80,439**	**(450)**	**3,685**	**35**	**40,407**	**124,116**

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

Notes to the Consolidated Financial Statements

For the half-year ended 31 December 2018

1. Corporate information

The financial report of Kangaroo Island Plantation Timbers Ltd ("the Company") and its controlled entities ("the Group" or "Consolidated Entity") for the half-year ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 26 February 2019. 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.

2. Basis of preparation and accounting policies

(a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2018 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include full note disclosures of the type normally included within the annual financial report. Accordingly, it should be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Kangaroo Island Plantation Timbers Ltd during the half-year ended 31 December 2018 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and ASX Listing Rules.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of the following standards:

New and revised standards

A number of new or amended standards became applicable for the current reporting period.

AASB 15 Revenue from Contracts with Customers

AASB 15 provides new guidance for determining when the Group should recognise revenue. The new revenue recognition model is based on the principle that revenue is recognised when control of a good or service is transferred to a customer – either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, or how much revenue is recognised.

The Group have assessed that there has been no impact on the Group's previously reported financial performance or financial position following the adoption of AASB 15.

AASB 9 Financial Instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement requirements. AASB 9 addresses the classification, measurement and derecognition of financial assets, financial liabilities and hedging and a new impairment model for financial assets. The Group adopted AASB 9 from 1 July 2018 and the standard has been applied retrospectively. Comparatives for 30 June 2018 have not been restated.

The Group had to change its accounting policy for Investments and as a result of adopting AASB 9 Financial Instruments.

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB 9.

The impact of the adoption of these standards and the new accounting policies and new accounting policy is disclosed below. The other standards did not have an impact on the Company's accounting policies and did not require retrospective adjustments.

(i) Financial Instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

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

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

Classification and initial measurement of financial assets

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

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 four categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Debt instruments at fair value through other comprehensive income (FVTOCI)
- Equity instruments at FVTOCI

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.

Financial assets at amortised cost

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of 'hold to collect' contractual cash flows are accounted for at amortised cost using the effective interest method. The Group's trade and most other receivables fall into this category. The change in classification has not impacted the carrying value of the Group's financial assets.

Impairment of financial assets

AASB 9 introduces a new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses. The new model applies to the Group's trade receivables.

The Group uses a simplified approach in accounting for trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Group has assessed the impact of the impairment model and no adjustment was required in the Group's financial statements.

(b) 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.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

3. Fair value measurement of non-financial instruments

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2018:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2018				
Property, plant and equipment				
Land held for production in Australia	-	-	45,240	**45,240**
Biological assets				
Standing timber	-	-	107,816	**107,816**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2018				
Property, plant and equipment				
Land held for production in Australia	-	-	45,240	**45,240**
Biological assets				
Standing timber	-	-	107,816	**107,816**

The fair value of the Group's plantation land was calculated by an independent expert, McGees (SA) Pty Ltd ("McGees Property"), as at 30 June 2017. The Board has reviewed the key valuation inputs and has concluded that there are no indicators that an updated valuation is required at 31 December 2018.

The fair value of the Group's biological assets was calculated by an independent expert, Geddes Management Pty Ltd, as at 30 June 2017. Geddes updated the value at the request of the Board resulting in an increased directors' fair value for the 30 June 2018 financial statements. The Board has reviewed the key valuation inputs and have concluded that a directors' updated valuation is not required at 31 December 2018.

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, and 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 9 for further details.

Biological assets (Level 3)

The fair value of the biological assets was calculated by an independent expert, Geddes Management Pty Ltd (Geddes) in their report dated 14 August 2017 and the key inputs as updated by Geddes at the request of the Board, for the fair value adopted in the 30 June 2018 financial statements. Using the model prepared by Geddes, the directors have considered the impact of changes to variables which they believe to be most material to the valuation. Refer to Note 8 for further details.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

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.

4. Other income and expenses

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
(a) Operating leases income		
Operating leases: freehold land and buildings	**56**	55
Operating leases: equipment Other	**7**	10
	63	65

The Group leases a number of assets on operating leases:

Operating leases: freehold land and buildings $56,600 (2017: $55,500)

- 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 at 31 December 2018 of $24,675 (2017: $24,121) is fully paid. The rent paid in advance for period ended 31 December 2018 amounts to $14,379 (2017: $24,121) excluding GST.
- The Group also has residential leases on nine properties. The agreements are cancellable and the annual rent received amounted to $34,988 (2017: $34,988).
- The Group also casually leases out certain properties for agistment, apiary and other purposes. The annual income amounted to $11,316 (2017: $7,655).

Operating leases: equipment $6,750 (2017: $9,750)

- The Group has entered into an equipment lease agreement that is cancellable by the lessor giving between one and three months' notice. The income amounted to $6,750 (2017: $9,750).

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
(b) Other income	**17**	2
(c) Forestry expenses:		
Salaries and wages	**139**	70

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
(d) Other Expenses		
Directors' fees and remuneration	**561**	375
Directors' performance rights	**82**	129
Total directors' remuneration	**643**	504
Share based payments	**33**	19
Professional fees	**172**	178
Legal fees	**148**	30
ASX/Share registry fees/ASIC fees	**48**	75
Audit fees	**31**	35
Depreciation	**62**	57
Other corporate expenses	**32**	40
	1,170	938

5. Income tax

	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
a) Income tax expense		
The major components of income tax expense are:		
Income Statement		
Adjustments in relation to previous income tax	**-**	**-**
Research and Development tax refund	**(45)**	**-**
Deferred income tax		
Benefit from previously unrecognised tax loss used to reduce deferred tax expense	**(199)**	(1,239)
Income tax expense/(benefit) reported in profit or loss	**(244)**	(1,239)
Profit/(loss) before tax	**(3,886)**	(4,278)
At the statutory income tax rate of 30% (2017: 30%)	**(1,166)**	(1,283)
Research and development tax refund	**(45)**	-
Other deductions	**682**	410
Tax losses brought into account as a deferred tax asset	**30**	(366)
Adjustments in respect of prior year	**255**	-
Income tax expense/(benefit) reported in income statement	**(244)**	(1,239)
b) Amounts charged or credited to other comprehensive income		
Deferred income tax related to items charged/(credited) to equity		
Share issue costs	**-**	-
Net gain on property, plant and equipment	**-**	-
Income tax expense reported in equity	**-**	-

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	31 December 2018 $'000	30 June 2018 $'000	**31 December 2018 $'000**	30 June 2018 $'000	**31 December 2018 $'000**	30 June 2018 $'000
CONSOLIDATED						
Trade and other receivables	**487**	698	**-**	**-**	**487**	698
Property, plant and equipment	**1,139**	1,139	**(5,847)**	(5,850)	**(4,708)**	(4,711)
Biological assets	**-**	-	**(21,482)**	(21,708)	**(21,482)**	(21,708)
Trade and other payables	**62**	32	**-**	-	**62**	32
Tax losses	**7,049**	6,898	**-**	-	**7,049**	6,898
Recognised tax losses	**-**	-	**-**	-	**-**	-
Tax assets/(liabilities)	**8,737**	8,767	**(27,329)**	(27,558)	**(18,592)**	**(18,791)**
Set off of tax	**-**	-	**-**	-	**-**	**-**
Net tax assets/(liabilities)	**8,737**	8,767	**(27,329)**	(27,558)	**(18,592)**	**(18,791)**

6. Earnings per share

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

a) Earnings used in calculating earnings per share

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Continuing Net profit/(loss) attributable to ordinary equity holders of the parent	**(3,642)**	(3,039)

b) Weighted average number of shares

	No.	*No.*
Post-share split		
Weighted average number of ordinary shares for basic earnings per share	**50,905,871**	42,089,574
Effect of dilution:		
Share options and performance rights	**-**	-
Weighted average number of ordinary shares adjusted for the effect of dilution	**50,905,871**	42,089,574

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

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

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

7. Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following at 31 December 2018.

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Cash at bank and in hand	**4,347**	**6,727**

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 31 December 2018 $3,155,148 (30 June 2018: $3,316,263, 31 December 2017: $1,854,500) 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 $4,347,000 (31 December 2017: $15,543,000).

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

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

	Freehold Land & Buildings $'000	**Plant and equipment $'000**	**Wharf Asset $'000**	**Total $'000**
Half-year ended 31 December 2018				
At 1 July 2018 net of accumulated depreciation and impairment	47,501	400	10,068	**57,969**
Additions	-	1	1,114	**1,115**
Depreciation charge for period	(15)	(48)	-	**(63)**
At 31 December 2018 net of accumulated depreciation & impairment.	**47,486**	**353**	**11,182**	**59,021**
Cost or fair value	47,701	1,265	11,182	**60,148**
Accumulated depreciation and impairment	(215)	(912)	-	**(1,127)**
Net carrying amount at 31 December 2018	**47,486**	**353**	**11,182**	**59,021**
Year ended 30 June 2018				
At 1 July 2017 net of accumulated depreciation and impairment	45,240	492	-	45,732
Additions	2,280	16	10,068	12,364
Disposals	(5)	(36)	-	(41)
Adjustment in accumulated depreciation in relation to disposals	-	36	-	36
Depreciation charge for year	(14)	(108)	-	(122)
At 30 June 2018 net of accumulated depreciation and impairment	47,501	400	10,068	57,969
Cost or fair value	47,701	1,264	10,068	59,033
Accumulated depreciation and impairment	(200)	(864)	-	(1,064)
Net carrying amount at 30 June 2018	47,501	400	10,068	57,969

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

At 31 December 2018, the Board and Audit Committee have reviewed the key inputs and have concluded that there are no indicators that a revaluation of the Group's freehold land and buildings is required.

The Increase in wharf assets during the period is due to the acquisition and improvements to a floating pontoon totalling $1.1 million (June 2018: $10.068 million). The wharf asset is not operational and therefore no depreciation has been charged during the year (June 2018: $nil).

9. Biological assets

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
At 1 July plantation timber at fair value	**107,816**	80,889
Add fair value adjustment:		
Fair value (loss)/gain	**-**	26,927
Total biological assets	**107,816**	107,816
Plantation timber at cost	**25,178**	25,178
Accumulated fair value gain	**82,638**	82,638
Total biological assets	**107,816**	107,816
Classified as current		
Classified as non-current	**107,816**	107,816

The Board has reviewed all the key valuation inputs. It has noted that movement in the AUD against the USD and chip prices (denominated in USD) have increased the fair value. However, the positive impact of these changes is offset by increased wharfage costs and the fire damage announced in December 2018. The Board have concluded that no change is required to the fair value of the biological asset at 31 December 2018.

10. Interest-bearing liabilities

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Current		
Bank borrowings [(a)]	**-**	-
Total current	**-**	-
Non-Current		
Bank borrowing [(a)]	**27,700**	25,000
Total non-current	**27,700**	25,000
Total	**27,700**	25,000

a. In the current year $2,700,000 was drawn down from the $8,000,000 ('second draw down'); in the year ended 30 June 2017, $25,000,000 ('first draw down') was drawn down.

The Company has a $57,100,000 facility with the CBA of which $25,000,000 ('first draw down'), $8,000,000 ('second draw down') and $22,000,000 ('third draw down') is available to fund Wharf Construction once approval obtained; in addition further CBA asset finance will be available. Interest of 1.79% (2017: 1.79%) per annum based on BBSY variable rate and fees of 3.1% (2017: 3.1%) per annum on amounts drawn down amounted to $1,597,364 (2017: $203,915) during the year. The facility is secured by:

For the half-year ended 31 December 2018

- 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 shares in subsidiary undertakings.
- A charge over Smith Bay wharf site and Ballast Head land will not be registered until the second drawdown is required. The two assets are valued at $1,100,000 by the Independent Valuer.
- An account set off deed over deposited funds of $3,155,148 (June 2018: $3,316,263) (refer to Note 7 for further details).

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

b. The carrying amount of interest bearing liabilities approximates their fair value as the interest payable on these borrowings is close to current market rates.

11. Contributed equity

a) Issued and paid up capital

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Ordinary shares fully paid	**79,989**	79,963

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

a) Movements in shares on issue

	31 December 2018		30 June 2018	
	Number of shares	**$'000**	Number of shares	$'000
Beginning of financial year	**50,897,512**	**79,963**	40,874,809	60,648
Placement announced on 4 December 2017	**-**	**-**	10,000,000	20,000
Share-based payment (Note 13)	**13,549**	**28**	22,703	50
Share issue costs	**-**	**(2)**	-	(735)
End of the financial year	**50,911,061**	**79,989**	50,897,512	79,963

12. Reserves

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Option reserve (a)	**35**	111
Property, plant and equipment reserve (b)	**3,685**	3,685
	3,720	3,796

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

a) Option reserve

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Opening balance	**111**	**480**
Movement:		
Performance rights dated 16 October 2018	**35**	**-**
Performance rights dated 10 November 2017	**47**	**111**
Performance rights dated 24 February 2017	**-**	**104**
Performance rights lapsed	**(158)**	**(584)**
Closing balance	**35**	111

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

	Year	Performance Rights dated 16 October 2018 $	Performance Rights dated 10 November 2017 $	Performance Rights dated 24 February 2017 $	Total Performance Rights $
Non-Executive Directors					
P McKenzie	**Dec 2018**	6,777	4,342	-	11,119
	Jun 2018	-	15,851	14,922	30,773
G Boulton	**Dec 2018**	6,777	4,342	-	11,119
	Jun 2018	-	15,851	14,922	30,773
K Lamb[(1)]	**Dec 2018**	4,342	-	-	4,342
	Jun 2018	-	-	-	-
Executive Directors					
J Sergeant	**Dec 2018**	13,554	8,683	-	22,237
	Jun 2018	-	31,702	29,842	61,544
S Black	**Dec 2018**	6,777	4,342	-	11,119
	Jun 2018	-	15,851	14,922	30,773
G Holdaway	**Dec 2018**	13,554	8,683	-	22,237
	Jun 2018	-	31,702	29,843	61,545
			-		
Total	**Dec 2018**	**51,781**	**30,391**	**-**	**82,172**
	Jun 2018	-	110,957	104,451	215,408

(1) Mr K Lamb was appointed as a Non-Executive Director on 15 October 2018, under his agreement he is entitled to Performance Rights dated 16 October 2018 under the Performance Rights Plan, on the same basis as other non-executive Director's subject to Shareholder approval.

Performance Rights dated 24 February 2017, 10 November 2017 and 16 October 2018

At each General Meeting, Shareholders have approved performance rights, 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 10 November 2017 expired on 9 November 2018 and were replaced with Performance Rights dated 16 October 2018.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

The Performance Rights dated 10 November 2017, were approved by Shareholders on 10 November 2017 and had identical performance conditions and expired on 9 November 2018.

Performance Rights dated 24 February 2017 expired on 23 February 2018 and were replaced with Performance Rights dated 10 November 2017 which have identical performance conditions and expire on 9 November 2018.

A summary of the Performance Rights is shown below:

20 Business Day VWAP	Shares to be issued to J Sergeant & G Holdaway	Shares to be issued to P McKenzie, S Black & G Boulton	Total Shares to be issued to Directors	Escrow period
	Number	Number	Number	
$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**	

Valuation of Performance Rights dated 10 November 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.

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 Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights. The performance rights have been valued using the share price at the Grant Date with a probability applied to each tranche. The Rights expire on 9 November 2018. The valuation is based on the probability of achieving VWAP, set out in the table below.

20 Business Day VWAP	Shares to be issued	30 June 2018	30 June 2019	Total Valuation
		$	$	$
$3.50 or above	374,990	100,814	39,432	140,246
$4.25 or above	300,020	8,212	4,989	13,201
$5.00 or above	224,980	1,931	3,019	4,950
Total	**899,990**	**110,957**	**47,440**	**158,397**

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.

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 Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights. The performance rights have been valued using the share price at the Grant Date with a probability applied to each tranche.. The valuation is set out in the table below.

20 Business Day VWAP	Shares to be issued	30 June 2017 $	30 June 2018 $	Total Valuation $
$3.50 or above	374,990	412,623	68,771	481,394
$4.25 or above	300,020	65,359	32,679	98,038
$5.00 or above	224,980	2,250	3,001	5,251
Total	**899,990**	**480,232**	**104,451**	**584,683**

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.

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 Black Scholes or Monte Carlo valuation methods are suitable for the Performance Rights. The performance rights have been valued using the share price at the Grant Date with a probability applied to each tranche. The valuation is set out in the table below.

20 Business Day VWAP	Shares Number.	30 June 2016 $	30 June 2017 $	Total Valuation $
$1.50 or above(1)	700,010	649,844	694,176	1,344,020
$2.00 or above	600,000	545,861	583,099	1,128,960
$2.50 or above	499,990	427,024	456,158	883,182
Total	**1,800,000**	**1,622,729**	**1,733,433**	**3,356,162**

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

b) Property, plant and equipment revaluation reserve

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Opening balance	**3,685**	**3,685**
Fair value gain on property, plant and equipment	**-**	**-**
Tax on fair gain on property, plant and equipment at 30%	**-**	**-**
Closing balance	**3,685**	**3,685**

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

13. Share-based Payment

Recognised share-based payment expenses

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

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Performance rights [a]	**82**	129
Expense arising from equity-settled share-based payment transactions [b]	**28**	19
Paid to employees under Executive & Employee Share Plan	**5**	-
Total expense from share-based payment transactions	**115**	148

Equity-settled share-based payment transactions are as follows:

(a) During the period the following $82,174 (31 December 2017: $128,610) of directors' remuneration related to performance rights. The performance rights issued have been valued in accordance with AASB 2 *Share-based payments*:

1) Performance Rights Dated 16 October 2018 valued at $147,597:
   i. $30,391 is recognised in the six month period ended 31 December 2018;
   ii. $72,978 is recognised in the six month period ended 30 June 2019; and
   iii. $44,228 is recognised in the year ended 30 June 2020.
2) Performance Rights Dated 16 October 2018 valued at $21,085 in respect of new director Keith Lamb (subject to Shareholder approval):
   i. $4,341 is recognised in the six month period ended 31 December 2018;
   ii. $10,426 is recognised in the six month period ended 30 June 2019; and
   iii. $6,318 is recognised in the year ended 30 June 2020.
3) Performance Rights Dated 10 November 2017 valued at $158,397:
   i. $24,159 is recognised in the six month period ended 31 December 2017;
   ii. $86,798 is recognised in the six month period ended 30 June 2018 ; and
   iii. $47,440 is recognised in the six month period ended 31 December 2018.
4) Performance Rights Dated 24 February 2017 valued at $584,684:
   i. $104,451 is recognised in the six month period ended 31 December 2017; and
   ii. $480,233 is recognised in the six month period ended 30 June 2017.
5) Performance Rights Dated 18 January 2016 valued at $3,356,161:
   i. $nil is recognised in the six month period ended 31 December 2017;
   ii. $272,400 is recognised in the six month period ended 30 June 2017;
   iii. $1,461,031 is recognised in the six month period ended 31 December 2016; and
   iv. $1,622,730 is recognised in the six month period ended 30 June 2016.

(b) Shares issued in lieu of $25,000 (2017: $19,897) consulting fees to Peter Lockett (refer below for further details) and $3,000 (June 2018: $nil) to Allinson Accounting Solutions in lieu of $3,000 of professional services.

Peter Lockett was appointed as Approvals Manager on 8 May 2017. Mr Lockett's professional services are invoiced by Seaview Corporate Services Pty Ltd, of which, Mr Lockett has effective control. During the period 12,073 ordinary shares were issued in respect of $25,000 of services:

- 5,872 shares at $2.13 as payment for $12,500 of services incurred and accrued in the prior period; and
- 6,201 shares at $2.02 as payment for $12,500 of services incurred in the current period.

During the prior period 9,388 ordinary shares were issued to Peter Lockett in respect to $19,897 of services:

- 5,708 shares at $2.19 as payment for $12,500 of services incurred in the current period; and
- 3,680 shares at $2.01 as payment for $7,397 of accrued services in the period ended 30 June 2017.

Notes to the Consolidated Financial Statements (continued)

For the half-year ended 31 December 2018

14. Commitments

Commitments

	Consolidated Lease Commitments		**Consolidated Other Commitments**	
	31 December 2018 $'000	30 June 2018 $'000	**31 December 2018 $'000**	30 June 2018 $'000
Due no later than one year	**32**	32	**-**	**-**
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	**32**	32	**-**	**-**

The Group leases two offices.

There are no other commitments at 31 December 2018 or 30 June 2018.

15. Contingent assets and liabilities

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

There are no other contingent assets or contingent liabilities at 31 December 2018.

16. Operating segments

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

17. Events after balance date

On 18 February 2019 the Group announced the successful completion of $10 million Placement to sophisticated and professional investors of 5.0 million shares at $2.00 per share and a Share Purchase Plan ("SPP") of up to 0.50 million hare at $2.00 per share. On 26 February 2019, 4,670,000 Placement Shares were issued, the remaining 330,000 are to be issued to key management personnel, subject to shareholder approval. The SPP shares are expected to be issued on 20 March 2019.

The Group is not aware of any other significant events occurring after 31 December 2018.

Directors' Declaration

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

In the opinion of the directors:

a) The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
   i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
   ii) Complying with Accounting Standards AASB 134 Interim Financial Reporting; and
b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Paul McKenzie
Chairman

Dated this 26th day of February 2019

Grant Thornton House
Level 3
170 Frome Street
Adelaide, SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666
F +61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Review Report

To the Members of Kangaroo Island Plantation Timbers Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year 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 31 December 2018, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Kangaroo Island Plantation Timbers Limited does not give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kangaroo Island Plantation Timbers Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Ian Kemp

I S Kemp
Partner – Audit & Assurance

Adelaide, 26 February 2019