



The Manager  
Companies Announcements Office  
Australian Securities Exchange

27 October 2017

Dear Sir/Madam,

**Quarterly letter to shareholders**

Please find attached a copy of the latest in a series of letters that the Managing Director of the Company addresses to its shareholders some time after the end of each quarter.

The letter is intended to provide information on the Company's activities and highlight the progress that has been made, while providing some insight into the Board's rationale for the Company's actions and its plans.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "V Allinson", with a horizontal line extending to the right.

Ms Vicky Allinson  
Company Secretary



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## Quarterly Letter

September Quarter 2017

Dear Shareholder,

Thank you for the feedback from the last letter. It seems that many KPT shareholders also have investments in “below-the-ground” resources companies where quantities and quality are inferred, rather than observed. Accordingly, there was great interest in the description of the inventory process that we use to measure our renewable, growing “above-the-ground” commodity.

There are a couple of further considerations that come from producing a resource of this type. The first is that, not only can we measure what is there and how well it is growing, we can do this with known levels of sampling error. Unlike a mining company, we can know the level of precision of our measurements. The second consideration is that, again unlike a mining company, we can harvest our poorest stock first and replace it with superior stock, so that the average quality and productivity of our estate gradually rises, giving us not just an infinite mine life, as it were, but a mine that, properly managed, gets better over time.

This month, I want to use my letter to tell you more about seven of our key partners and how they contribute to the business. We do not have a large staff in KIPT and we want to continue to run a lean organisation. Particularly as we get closer to starting export operations, we will look to each of our business partners to play the part for which they have been chosen.

### Our key partners

Our bankers, the Specialised Agribusiness team at the **Commonwealth Bank (CBA)**, have agreed to fund a total of \$57.1m in project costs, of which \$25m has been drawn down. That money was used to assist the Company to acquire most of the timberland on Kangaroo Island that it did not already own. A further \$30m can be drawn down in stages following development consent for the Smith Bay wharf. The balance of \$2.1m is available for working capital and equipment finance. Our manager is Peter Bowran, an experienced Perth-based banker who, with his team, has taken the trouble to understand the details of our business and who is a valuable source of advice for the Board and management team.

At Peter’s invitation, I was privileged to have lunch with Ian Narev, the MD of CBA, in Adelaide, last month. Ian was familiar with the Company’s plans and supportive of our project ... but not for any of the reasons I was expecting. Apparently, CBA has a significant loan book on Kangaroo Island and he was pleased that our project is causing an increase in land values and thereby underpinning on-farm investment and improving the Bank’s security position. As the largest landowner on the Island, KPT benefits from rising land prices more than anyone else, but of course we have no plans to sell land.



We are pleased to have the backing of Australia's largest listed bank, although it is only fitting, when one considers that we are Australia's largest listed timberland company. Well, actually the only one.

I have recently returned from a visit to the head office of **Mitsui & Co** in Tokyo. Mitsui is our timber resource marketing partner, selling our product into Japan and China, but the relationship is deeper than a marketing agreement.

In its own right, and through its subsidiaries and joint ventures, Mitsui is involved in plantation forestry and woodchip exports from Victoria, South Australia, the Northern Territory and Western Australia. And it has timber export arrangements in place in several other Pacific rim countries.

Our agreement with Mitsui gives us access to considerable forestry expertise and practical know-how. For example, the 100% Mitsui-owned operation at Bunbury is very like the one we are building on Kangaroo Island, with in-field chipping of eucalyptus globulus to meet both Chinese and Japanese specifications. Through Mitsui, we get the opportunity to learn from some of the best in the industry and, we hope and expect, to make our operation even better than Bunbury, not least because we are designing our wharf infrastructure from scratch, rather than utilising an existing commercial port.

Our chosen forestry services manager, **PF Olsen Australia**, is in charge of contract arrangements needed for the management and production of timber from the Kangaroo Island estate. Like Mitsui, PF Olsen is able to draw on considerable expertise and relationships with industry contractors, to help ensure that we get the best possible value in harvest, haulage, replanting and maintenance.

Certain mainland areas in WA, the Green Triangle and other parts of Victoria are much less productive than our Kangaroo Island estate. In these areas, significant areas of land have been converted from eucalypt forestry back to grazing, so there is some emerging surplus capacity in forestry harvesting and haulage. PF Olsen will assist us in redeploying people and machinery to Kangaroo Island, when the time comes - to the extent that we are not able to develop such capacity locally.

PF Olsen also adds value through its ability to map and model the estate and to help us optimise its productivity. We believe that there is some scope to bring additional areas of company land into production and to improve the productivity of existing timberland following the first harvest.

You might have guessed when you first heard the name of our company that we have timber plantations on Kangaroo Island. It will then come as no surprise to learn that our maritime construction partner is called **Maritime Constructions**. This company is based in Port Adelaide and has been a partner in the truest sense, working on the very early design stages, right through to the present, when its staff supervised the complex business of taking possession of the pontoon for our wharf and transporting it from Ulsan, South Korea



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to its current location, a dry dock near Da Nang, Vietnam, where it will be reconditioned and refitted and where the pontoon retaining structures and the linkspan bridge will be fabricated. And all this during typhoon season.

Maritime Constructions has also managed the onshore and offshore geotechnical work at Smith Bay. We expect to work with them right through the construction phase, on an alliance basis, and, subject to satisfactory performance, on the ongoing maintenance task that will be required at Smith Bay.

Any construction project has risk involved, and we plan to manage that risk both with adequate cash provisions and by working closely with our construction partner to identify and resolve potential sources of delay or cost overrun. Maritime Constructions has delivered projects like this in the past, and is familiar with working on Kangaroo Island. It has a longstanding relationship with our design engineers, **WGA Australia**, another South Australian-based business.

Of course, we could have opted to entrust the whole project to one of the multinational consulting engineering firms, and one of the multinational first-tier civil construction firms. In some people's eyes, that may have been the right choice. However, we have no regrets about deliberately selecting the best South Australian owned businesses wherever we can. Quite simply, they are world class, and we know that they value our business and recognise the ongoing benefits of our project for the State.

However, we have retained KBR (yes, a global engineering firm) as our Owner's Engineer, effectively as a source of peer review.

Speaking of South Australian businesses, I hesitate to refer to **environmental projects**<sup>1</sup> (ep) as a business partner, because their work on the environmental impact assessment is necessarily independent of the Company. Indeed, the Environmental Impact Statement (EIS) must be prepared at arm's length from the proponent. As is proper, the Company informs ep about its development and operational plans, and then ep independently assesses and documents the environmental, social and economic impact of our proposals, commissioning the necessary scientific studies to accumulate the evidence that will appear in the EIS.

In practice, we find that ep is also a valuable source of advice. Where the Company's plans pose any sort of risk to the environment, ep advises us to consider doing things differently. For example, there are good business reasons for bringing logs to a static chip mill at the wharf. This is the norm in Victoria and South Australia. However, there are countervailing environmental reasons for mobile chipping in field. As you already know, we will be chipping in field ... and learning from Mitsui's Bunbury operation. When you operate a business on Kangaroo Island, you must minimise its environmental impact, simply because

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<sup>1</sup> Yes, they always write their business name in lower case.



the Island has unique and sensitive ecosystems. The team at ep is comprised of people who care about the plant and animal communities of Kangaroo Island and its coast, and that ethos is reflected in their work ... and our plans.

The final partner I will mention in this newsletter is **Petra Capital**, the manager of our successful \$33.5m capital raising that (in conjunction with Tranche 1 of the CBA debt facility) enabled the Company to acquire the Kangaroo Island FIT Estate, which has grown well during the protracted Great Southern, Gunn's and Viento liquidations (and keeps growing while we wait for wharf approval).

However, Petra has done much more than simply manage our equity capital raising in a timely and efficient manner. We are pleased to have a Petra research analyst covering our stock and, while we would all like to see bigger volumes of shares transacting, there is evidence of increased liquidity since coverage was initiated. Petra is also a valued source of advice on the Company's capital structure and finance requirements. Petra has been involved in several successful resources development projects, so we have much to learn from them.

And why, you may ask, did we not use an Adelaide-based stockbroking firm, when our policy is to use local businesses wherever possible? Simply because emerging companies like ours do not fit so readily into the business model of the two leading firms established and headquartered in Adelaide. As KPT moves steadily closer to becoming more of a yield stock, their interest is certainly growing and welcome ... we would be glad to have more South Australian retail and institutional shareholders. I look forward to marketing the Company in South Australia more over the coming year.

Representatives of each of our key business partners have been invited to attend the AGM. I would encourage shareholders to take the opportunity to speak with them and to learn more about their contribution than I have been able to summarise here.

Now, if you ever have to make a speech of thanks at a wedding, you can easily find yourself mentioning innumerable people, out of fear of omitting and thereby offending someone. I won't make that mistake, but you will understand that KPT is a bigger organisational effort than even a Trump wedding, so there are plenty of other people and businesses making a big contribution to the Company and upon whom we depend for our success.

### **Wharf progress**

As we have announced to the market, the finalisation of the Environmental Impact Statement is dependent on the completion of the last outstanding scientific study: offshore geotechnical investigation. This has been held up by a series of unfavourable weather events, but we are hopeful that it will soon be completed. It is finally under way again now, taking advantage of light winds and calm seas on the north coast of the Island. Here is a picture of the survey vessel positioned just north of the planned berth face. The work is



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being conducted under the strictest environmental standards yet applied in South Australia for this type of investigation.

Once the results are available, we will be able to finalise the design and the construction plan, and to run the coastal process simulations. It is difficult to say exactly how long this will take. To a large extent, it depends on what we actually find in the seabed. Of course, we have to demonstrate that the facility can be built and operated without negative effects on the marine environment. The geotech results are important in this regard. They tell us about the potential for siltation during construction, and the measures needed to ensure that this is contained within the construction area.



Then, ep will be able to complete those chapters of the EIS that depend on the geotech results. We will of course keep the market updated about our progress towards lodging the EIS. It would have been good to have it submitted by now ... but it is worth noting that the very same storms that held up the geotech were also watering our trees and providing the soil moisture that will enable them to keep growing steadily through the coming summer.

### **In conclusion**

The Board and I look forward to seeing shareholders at the AGM in Adelaide next month. Although KPT's market capitalisation has grown considerably as we get closer to wharf approval, we are still a relatively small company when measured by the number of shareholders. So, unlike many CEOs, I am able to answer calls from shareholders and to take your comments and advice to the Board. If you have any input into how the Company is run, then of course you can share your views at the AGM ... but you can also call me directly at any time.

With best wishes and thanks,



John Sergeant  
Managing Director



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