



The Manager
Companies Announcements Office
Australian Securities Exchange

4 August 2017

Dear Sir/Madam,

Quarterly letter to shareholders

Please find attached a copy of the second in a series of letters that the Company intends to send to shareholders some time after the end of each quarter.

It does not contain any unreleased material information. Instead, it is intended to highlight the progress that has been made, while providing some insight into the Board's rationale for the Company's activities and 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

KIPT Quarterly Letter

June Quarter 2017

Dear Shareholder,

Thank you for the positive and constructive feedback from the last letter. Some readers asked that I include more information about the practice of forestry itself. So, this time, I will discuss forestry inventory, which is particularly relevant at this time of year. The letter also provides details about the steps the Company is taking to keep the Kangaroo Island Community informed and involved in its plans, and addresses some other topical matters. Lastly, shareholders requested some photographs to accompany the letter.

Forestry inventory

The Company's forthcoming Annual Report will contain a valuation of the timber crops growing on our land. We have made no secret of the fact that the recent FIT Estate purchase is value accretive for our shareholders, so you should expect to see a solid NTA/share number in that document. But what is the basis upon which a timber crop is valued?

The first and most important step is a forestry inventory. Unlike most resources companies, KPT's resource is above the ground and growing. Those two characteristics make measurement relatively straightforward ... and ongoing. The easy part is measuring what is there. This is done by establishing what are called permanent sample plots (PSPs). A grid is superimposed over each compartment and a small group of trees is identified at the points where the gridlines cross. Each of the PSP trees is marked with tape or spray paint so that they can be identified in subsequent years.

Foresters carry a special tape measure in which the cm marks are π cm apart. Looping the tape around the trunk at a standardised height provides the trunk's diameter. The density of the plantation (i.e. the number of trees per hectare) can be used to calculate the total basal area of a notional massive single tree growing on that hectare.

Using trigonometry, the predominant height of the trees is determined. Yes, it is all Year 10 maths. With these two measurements, and noting that the tree trunk is conical, the volume of standing timber per hectare is calculated. The density of the timber is known, so the volume is then translated into tonnes. The area of each compartment is used to determine the total tonnes of standing timber on each compartment, and on the estate as a whole. Forestry inventory work is conducted for KPT by an independent specialist contractor.



Although these "green" tonnes are hauled to the wharf and loaded onto a ship, KPT only gets paid for the dry content of hardwood chips. In any written material about the woodchip business, you will see references to BDMT, which refers to Bone Dry Metric

Tonnes. These would simply be called dry tonnes were it not for the involvement of Americans in the trade. Harvested timber is around 50% water. Woodchips are sampled as they are loaded onto the ship, then dried out in a laboratory to determine the exact moisture content. As with athletes' doping control, there are A and B samples retained in the event of later disputes. The producer is usually paid for the dry tonnage within a fortnight of the ship's departure.

As an aside, pulp yield, which is the proportion of cellulose in the dry content of woodchips, is also a factor in determining the value of the cargo, but this is a more constant characteristic of the estate than the moisture content, which is affected by many factors and varies from one shipment to another. Producers who are known to supply a product with high pulp yield can typically command a better price. Based on initial tests, we do not expect KPT's estate to produce a particularly high or particularly low pulp yield.



So, a forestry inventory tells us mainly about the quantity of timber that is there now. However, timber is a growing resource. The known age of the compartment, and the ability to repeat the inventory process on the same PSPs, reveals the growth rates. This annual increment is the basic measure of forest productivity (green tonnes per hectare per annum). To value a plantation, one simply needs to make assumptions about future growth rates up to the point of harvest, using standardised growth curves developed for each species, and to discount back the resulting future sales revenue less anticipated costs. KPT outsources this role to an independent consultant forester, who adopts a conservative approach and uses tree growth curves based on lower-productivity estates.

The process for conducting an inventory on a pine (softwood) plantation is broadly similar. Pine is generally sold by volume, not weight, so there is no need for conversion to tonnes. However, the volume for which we get paid is the Japan Agricultural Standard (JAS) volume. This is the volume of the largest cylinder of standard length that would fit into the log. More Year 10 maths. So, we don't get paid for the taper and we are rewarded for producing straight trees. Pine inventory is further complicated by the fact that there are different grades of log. Some pine logs are so perfect that they can be used to make picture frames or skirting boards. Others yield structural timber. Yet others (pulp logs) are fit only to be turned into newsprint or toilet paper. There are several grades in between those that I have mentioned. Better logs attract higher prices, but even pulp logs are valuable. It takes a skilled and experienced forester to estimate the grade turn-out at harvest. Again, this is done for KPT by an independent forester and the results are discounted back to the present. About 20% of KPTs estate is pine and we do not expect the grade mix from our pines to be either particularly good or particularly poor.



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So, when you read the plantation inventory values in the Annual Report, you will know exactly how they are derived.

Our inventory work suggests that Kangaroo Island is a terrific place to grow trees. Average growth rates are high, especially for our Tassie Blue Gum, which comprises the majority of the estate. There is some variability across the estate, however; more than can be explained by differences in rainfall and soil type alone. Our task over coming years is to look at the contribution of various factors and inputs, including the fertilizer regime, prior land use, trace elements, the underlying genetics, land slope and orientation, stocking density, soil depth, establishment protocols, fencing and weed control. This statistical analysis, coupled with a (currently expected) transitioning to 100% Tassie Blue Gum, will enable us to maximise the future productivity of the estate. We can also use this process to identify promising unplanted areas that, with the right treatment, might become productive and profitable parts of the estate.

Involvement in the KI Community

The Company engages with the Kangaroo Island community and its agencies at many levels, through its directors, staff and contractors. These engagements range from conversations at the supermarket with interested individuals to formal presentations and Q&A sessions with stakeholder groups. Topics are varied: from job opportunities to environmental issues.



Of many, many meetings, recent ones have included:

-) Presentation to the KI Natural Resources Management Board (Picture with KINRMB presiding member Richard Trethewey).
-) Initial meeting with Parndana Progress Association representatives
-) Meeting with representatives of the KI Road Safety Committee
-) Joining the Commissioner for Kangaroo Island's taskforce on feral pig control
-) Presentation to the Kangaroo Island Council
-) One-on-one engagements with Smith Bay neighbours
-) Meeting the independent growers of timber on Kangaroo Island.

The community here has many questions. There is no established forest harvest industry and, until now, no feasible solution to get that timber to market; just a sorry history of failed Managed Investment Schemes. Our aim is to prove our intent and commitment by engaging wherever we can and with improved communication.

Our primary communication tools are local newspaper *The Islander* and our website. We occasionally attract the interest of mainland media. We have opened a small office in Kingscote, which has provided a workplace for directors, staff and contractors and also a meeting space and point of contact for interested Islanders.

Some of you may have received email notifications from our new website when a piece of news is uploaded. You have been subscribed for updates using your email address from our

share register. Please feel free to subscribe (or unsubscribe) at www.kipt.com.au.

Wharf progress

I wrote three months ago that it had taken a long time and a good deal of money to get to where we were then. Since then, we have spent more of both precious commodities. However, we are making steady and inexorable progress through the development assessment process. The Environmental Impact Statement (EIS) guidelines we received from the SA Government on 30 June were comprehensive and fair. While much remains to be done, there is now a clear pathway for our project. We need to show that we can deliver and operate the wharf while protecting the environment. We are confident that we can do this to the satisfaction of the government and all key stakeholders. The aim is to gain consent in a form that includes reasonable conditions and provides the required degree of operating flexibility. The photo shows NED Greg Boulton AM and me discussing our plans on-site at Smith Bay with Premier Jay Weatherill and Transport Minister Stephen Mullighan.



We continue to seek a meeting with the neighbouring on-shore abalone farm, the only significant objector to the project, and are prepared to compromise to address their concerns. Their position of steadfastly refusing to engage with us is beginning to count against them. It will not be tenable for much longer. Inevitably, they will come to the table. However, in the meantime, we should be prepared for more negative media and stunts from them and their allies, especially as we undertake offshore geotechnical investigation, as required by the EIS process. In the end, we will have to work cooperatively as neighbours, so we continue to conduct ourselves with that goal in mind.

We will keep the market informed about the assessment process as best we can, although we ourselves remain unsure about its likely duration. The good thing, from our point of view, is that the process, while lengthy and costly, is thorough and fair.

Sandalwood

Some people have asked me about the differences between TFS / Quintis (the sandalwood business) and KPT. It's a good question and, luckily for us all, there is an equally good answer. While there are many small differences, the main distinction between KPT and that other business is that we own all of our assets ... and that there is a well-established and well-understood market for our product.

Capital raise

Petra Capital did a fine job in the capital raising that enabled us to complete the FIT Estate acquisition at the earliest opportunity and for the lowest price. Our ability to do this was based on the support and confidence of many new and existing shareholders. It not only gave us an expanded quality share register, it silenced and surprised some doubters. Thank



you. Your confidence in the business helps to grow similar confidence in the minds of government and the community. It is well-founded.

As shareholders ourselves, we on the board are disappointed that those who supported the Company are yet to be rewarded with a reasonable increase in the share price. We can offer no explanation. Our view is that KPT is worth more than its current market capitalization ... and those of us with a bit of spare cash bought on market during the period when it was permissible for us to do so.

With best wishes and thanks,

A handwritten signature in blue ink, appearing to read "J. Sergeant".

John Sergeant
Managing Director

DISCLAIMER: The Company has taken all reasonable care in publishing the information contained in this letter. The information is a selective summary and is not represented as being complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We advise that you seek independent professional advice before making any investment decisions. The Company is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer because of that use.