

The Manager  
Companies Announcements Office  
Australian Securities Exchange

14<sup>th</sup> February 2020

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 following the end of each quarter.

The letter is intended to provide background 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,



Ms Vicky Allinson  
Company Secretary

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## Quarterly Letter

December Quarter 2019

Dear Shareholder

I am writing this letter in February 2020, while the company's shares are in voluntary suspension from trading on the Australian Securities Exchange following the wildfires which have impacted our company assets. Before the fires, I had planned for the December letter to provide an update on the state of the market for woodchips and logs, the approvals process for the Kangaroo Island Seaport at Smith Bay, and the advanced state of planning for construction to start immediately following approval.

Since the fires were officially declared safe on February 5, our attention has turned to the business recovery plan for KIPT, and the part we can play in recovery for the community and ecology of Kangaroo Island.

As noted in the company's ASX release of February 11, the claim for losses to the timber crop has been accepted by our insurer Primacy, and a progress payment of \$10 million has been received. This is a sign of good faith that the total amount payable will be forthcoming. We appreciate the significance of the claim to the insurance sector and our provider Primacy, and we are working with them to assist in processing the claim expeditiously. The company has several other insurance policies in place for infrastructure and business assets, for which it is currently working through the claims process.

The topic of fire risk and the impact of climate change will continue to be debated in the months and years ahead. Both the Federal and State governments have announced inquiries and KIPT intends to make submissions in its capacity as a corporate citizen, and an affected party. KIPT does not take a political position on these matters, but draws from the professional knowledge and experience gained during the recent fire campaign by its staff, managers and business partners in the field of forestry and fire management. An independent forestry and fire consultant has been engaged to undertake a forensic analysis of the fire events, and KIPT's role in the wider fire-fighting campaign. The Board will be guided by this report in its future decision-making.

It is important to note that the losses for many in our community on Kangaroo Island, and eastern Australia more generally, have been extensive. Events such as the wildfires of December and January can cause intense grief that must be worked through by individuals and whole communities. Counselling has been made available to KIPT staff as part of our ongoing Employee Assistance Program, in addition to the resources offered by other agencies concerned about the recovery of the island community. It is to be expected that through this time emotions will be high and statements made that in retrospect may appear

intemperate. KIPT staff who live on the island are participating in the community healing process which will require patience and persistence in the months and years ahead.

## Perspective

KIPT considers itself an integrated part of the community fire response, which includes State government land management agencies and local government. It is our view there are lessons to be learned by all of us in considering fire risk, starting with landscape management responsibilities in the years before the 2019-20 fire season, and extending to the strategy and resourcing of the suppression efforts in which KIPT took part between December 20 and February 5.



*ABOVE: Fire approaching Jarmyn plantation under catastrophic fire conditions January 3, 2020. KIPT tanker and fire crew preparing to evacuate. Picture: Tim Wilson.*

Effective fire management requires an integrated understanding of fire behaviour in the landscape. Management of native vegetation in parks and roadside reserves, farm crops and plantation timbers, as well as design and location of physical assets such as dwellings, tourist infrastructure and roads all need to be considered based on this new experience and knowledge.

Well-managed timber crops do not of themselves present an increased fire risk compared to other activities. Indeed, under normal climatic conditions, the physical structure of plantations can mitigate fire behaviour by dampening wind speed at ground level to reduce flame height and intensity.

KIPT's plantations on Kangaroo Island were carefully designed to reduce fire risk and assist effective control under normal fire conditions, with industry-standard fire breaks, external and internal access, and serviced water points.

None of the fires during this recent episode started on KIPT land; all of the fires on KIPT land were either wildfires escaping from neighbouring lands, or backburns implemented in the course of the wider fire-fighting campaign. Consistent with agriculture, the forest industry preferred strategy in fire-fighting is to conduct aggressive direct attack, and to avoid backburning within its crops unless absolutely necessary for the wider community benefit.



The surveillance and response by KIPT, as part of the wider CFS campaign, before and during the fires was documented in the company's ASX release of January 31. KIPT staff and contractors were on the fire ground in the so-called 'dead-man zone' protecting our own and neighbours' assets when the worst-case scenario occurred on January 3, and fire emerged from the national park under catastrophic weather conditions. At that point, it was impossible to defend the physical assets and our focus shifted to protecting human life

*Jarmyn plantation (same location as previous photo) after the 2007 fires, showing impact of fire behaviour under normal conditions.*

*Picture: Shauna Black.*

KIPT welcomes the reviews announced by State and Federal governments, on the basis that a wide-ranging and respectful discourse should allow for science and reasoning to interpret the experiences and beliefs of those who have lived through the trauma of the events. The lessons learned from the behaviour of the fires, and the efficacy of the suppression efforts, under the climate conditions experienced this summer, should provide the basis for a widespread landscape review on Kangaroo Island.

## Outlook

While the fires have had a profound impact on the short-term business prospects for KIPT, the long-term prospects for the business have not changed. Kangaroo Island is still a good place to grow trees, as it is also a good place for other agricultural enterprises.



However, our ability to realise the value to shareholders of the current standing timber crop, previously valued at \$115 million (June 2019), has been severely impacted due to the cumulative impact of the fires. As outlined in the release of January 29, the condition of the estate has been mapped and, together with our property managers and stakeholders, we are now examining options for the fire affected areas. Certainly, it is necessary to clear the land in order to bring it back into production and there are still some millions of tonnes of timber to mobilise. As we work through the bigger-picture options, KIPT has recruited a consultant to assist with the planning and logistics required to start on-island processing of posts and poles from damaged timber. This will assist the local farming community to replace an estimated 3,000km of fencing that has been destroyed. We have also employed a small fencing taskforce to work alongside BlazeAid and local farmers to replace fencing, including on our boundaries.

While the economic case for salvage is yet to be determined, the KI Seaport is still required to support whatever salvage opportunity emerges, and to secure the future of the business and the island community. The changed nature of the current crop has prompted us to think more broadly about the business case for the port. As noted in the Quarterly report released January 31, the design of the KI Seaport was required by government to provide for multiple-users. However, KIPT had not previously incorporated third-party access into its business case. The permitting at this stage does not include non-forestry activities. However, it is likely the company will now take a stronger interest in the potential for other island-based trade as part of the business case for the project. Any third-party activity would of course be subject to the necessary approvals, taking into account sensitive receptors including neighbours to the site.

As we work through the options, we will make announcements to the market, and continue to communicate with shareholders as well as stakeholders and government authorities.

### **Acknowledgements**

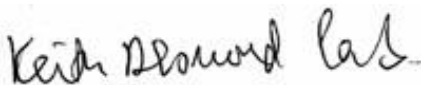
As a final note, I would like to reinforce previous statements of acknowledgement for the support offered to myself and the company through this challenging time, including from our business partners, State government agencies, Country Fire Service, local government, farm fire-fighting units, the Australian Defence Force, the broader forestry community and those individuals on the island and elsewhere who have contacted us.

As I reflect now on the events of that month, I feel compelled again to make a special acknowledgment of the company employees and contract fire-fighters who bravely attended the fires throughout the period. I would like to make a special mention of Mr Tony Willson, an earth-moving contractor whose grader was destroyed in the course of defending KIPT and neighbouring assets on January 3.

We also remember our friend, neighbour and pilot Dick Lang, known to many of the company's shareholders and business partners, who lost his life in the Kangaroo Island fires and whose son Clayton also perished on that tragic day. Our thoughts are with Dick's wife Helen and her family.

### In conclusion

Expressions of support offered by State and Federal governments to KIPT, as a key component of the island's future, have been particularly welcome. We look forward to playing our part in the recovery program for Kangaroo Island, and to rebuilding shareholder value in the years ahead.



Keith Lamb  
MFor, MBA, GAIDC, MIFA  
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.*