

The Manager
Companies Announcements Office
Australian Securities Exchange

5 February 2019

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

Quarterly Letter

December Quarter 2018

Dear Shareholder,

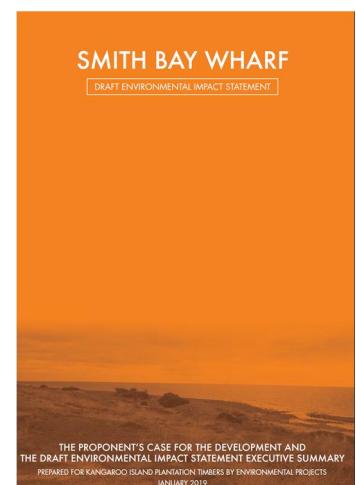
It has been my practice to send out this letter within a month of the end of each quarter and I apologise that the current letter is a week late. Revisions to the Smith Bay Wharf EIS¹ have taken priority over everything else during the summer months. It is good to have the final version of the EIS in the hands of government, and we will be delighted when SA Planning Minister Stephan Knoll places the document on public exhibition, hopefully in the next few weeks. When that time comes, I encourage shareholders to read the executive summary (pictured) at the very least. You will be proud of the scope and the quality of work that has been completed on your behalf ... and on behalf of the community, which has a legitimate interest in our development.

In this quarter's letter, I want to speak about the interaction between the Company and the community of Kangaroo Island. Of course, the Company is itself a part of the community. It is the Island's largest ratepayer, for example. Wherever we can, we spend money locally, and we ensure that on-island creditors get paid very quickly. It all helps. And, previously, forestry companies on the Island have not had a good track record of paying their bills at all, let alone promptly, so we are working to change perceptions.

A number of our staff and those of our contractors live in the community. Like many people on the Island, they and their families are involved in a range of community activities. I grew up in a small rural community myself. I know how so much depends upon the committed volunteers who get involved in sporting clubs and community associations.

Another thing I remember is that local businesses are expected to support these volunteer-run community activities financially. Every page of my high school year book was sponsored by a local business, for example. On KI, we take this obligation seriously and are happy to support activities that assist the community and protect the environment.

However, until we have income from timber sales, any sponsorship is consuming precious capital, so we must be targeted in our approach. Some of the good causes that we support



¹ Environmental Impact Statement. The name is somewhat misleading. In fact, an EIS covers environmental, social and economic impacts, although the focus is, as the name suggests, on the environment.

on the Island are listed below, with brief descriptions. Director Shauna Black manages these relationships, as part of her community engagement role.

Glossy Black-Cockatoo Recovery Program

The Glossy Black-Cockatoo is endangered and much-loved on Kangaroo Island. The program which supports restoration of habitat and nest protection was about to end for lack of funding. The Company was pleased to step in to support this iconic project over two years and the employment of its dedicated officer Karleah Berris.



Yumbah Youth Employment Awards

Yumbah operates the onshore abalone farm at Smith Bay and is the principal objector to the KI Seaport. Still, we put differences aside to support those who create entry-level employment opportunities on KI. Currently, the Island's most valuable export is its young people. We hope to change that, by providing plenty of permanent, well paid jobs so that children do not have to leave home to find work ... and by making timber the No.1 export.



Kangaroo Island Country Education Fund scholarship

The fund was established in 2007 to assist young people from the Island to pursue further education through university, apprenticeships or TAFE. It can be an expensive exercise to move to the mainland for such study. We have now sponsored a \$2000 scholarship for the past four years to assist with living and study expenses. (2019 scholarship winner Holly Muecke pictured with Director Shauna Black)

Penneshaw Sculpture Walk

This ambitious project has come to fruition because of the community's magnificent efforts and determination. It has created a wonderful new attraction at the Eastern end of the Island and we are proud to have sponsored its first commissioned sculpture, by award-winning artist Dave Clarke.



Kangaroo Island Racing Carnival

This race meet over three days in February is the premier social event on Kangaroo Island, and the Island's population (about 4500) doubles for these few days. An extraordinary effort by volunteers makes it happen each year and KIPT has been pleased to offer its financial support this year and last by sponsoring a race. This year, organisers have requested some branches of bluegum to decorate the Long Lunch marquee!



Western Districts Football Club.

The “club in the scrub” is at the west end of the Island. More than any other community, this one suffered from the failure of the managed investment schemes of the 1990s and early 2000s which established our now-valuable plantation estate. KIPT has been able to provide significant sponsorship for new guernseys for all grades plus goal post protectors.

You can read more about these sponsorships and others under the [“community”](#) and [“environment”](#) tabs on our website.

In the soon-to-be-released EIS, we have also committed to three further sponsorships, in order to ensure that there is no net harm to the environment from our development at Smith Bay. These are described below:

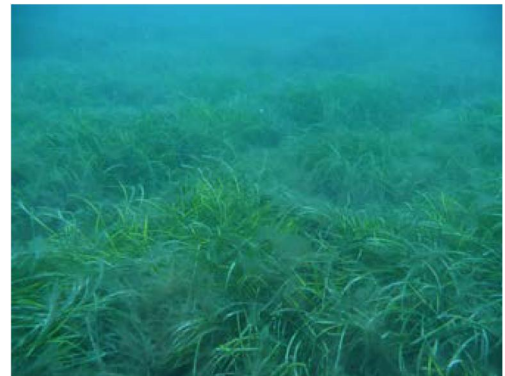


Echidnas

It is a sad fact that a small number of echidnas will end up as road kill once forestry trucks are moving on the western end of the Island. We can limit the harm by using high productivity vehicles and safer driving practices, but we cannot eliminate the risk completely. To offset any harm to the Kangaroo Island Echidna, which is endangered, we have committed to assisting the feral cat eradication program on the Island. Predation by feral cats is the main factor threatening the echidna population.

Seagrass

The seabed footprint of our development will inevitably suffer a loss of seagrass (e.g. *Posidonia sinuosa* pictured at a depth of 10m). Some of this seagrass may eventually return, but the process is slow and incomplete, especially in deeper water. Accordingly, we have committed to support an offsetting seagrass restoration project in Nepean Bay, where seagrass is being lost due to eutrophic agricultural run-off.



Marine biosecurity surveillance

The waters around Kangaroo Island are very exposed to the introduction of exotic marine species. Recreational vessels, fishing boats, cruise ships and passenger ferries are all potential vectors of unwanted species. Woodchip carriers and log vessels, even though they are relatively infrequent and will observe strict protocols for anti-biofouling and ballast water exchange, also present a risk. Some form of surveillance is needed, and we have agreed to co-fund such a program, although we would expect other parties, including government, to do likewise.

Of course, none of these existing sponsorships and future EIS commitments, important though they are, will have anything like the positive impact of the project itself. Modelling by BDO EconSearch shows that the economic and employment growth attributable to the mobilisation of the forestry industry on Kangaroo Island would take almost 30 years to accrue at current rates. And that is without considering the benefits to other industries of improving freight access, and without assuming any increase in the scale of Island forestry. When one considers that forestry generates about three times the economic and employment benefits per hectare when compared to dryland agriculture, it is apparent that further gains are achievable.

More importantly, there will be an increase in the Island's population: a small increase during construction and then a significant boost once production starts. Our forestry project is the opposite of mining in that respect. Building a mine is labour intensive but operating a mine needs relatively few people. Western Australia is still dealing with the consequences of the end of the mining construction boom. On Kangaroo Island, the addition of hundreds of year-round, well-paid, permanent jobs will drive inbound migration, and reverse the trend of young people leaving that is a problem for South Australia as a whole, not just Kangaroo Island.

Which brings me back to where I started. More than anything else, the Kangaroo Island Community simply needs more people, so that vital businesses and services can be supported and so that all the clubs, committees and associations on which the Island depends can be underpinned by a larger pool of volunteers.

Some people on Kangaroo Island today are understandably sceptical about the value of forestry. That will change when each netball club on the Island (there are five) has forestry people on the committee and their children in the junior teams, and when those same people are spending money at the shoe shop and helping out at the hospital fete. All the more so when young people who have moved to Adelaide or interstate come back to the Island because there is plenty of work and because it is such a wonderful place to raise a family. That future is not far away now, as we enter the final stages of the consent process.

With best wishes and thanks,



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.