

The Manager
Companies Announcements Office
Australian Securities Exchange

24 April 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

March Quarter 2019

Dear Shareholder,

When I last wrote a quarterly letter, I was hopeful that the Smith Bay Wharf EIS¹ would be released within weeks. In fact, it took over two months from the date on which the final version was submitted to the government. This neatly illustrates the difficulty in making predictions about any process over which one does not have control! However, it also illustrates the thoroughness of the Minister and his department, both of which took the time needed to study the EIS in full before its release on 28 March.

Having said that one should make predictions about these processes only with the greatest of caution, the Company remains hopeful that the project is capable of approval without further extended delays, not least because both the Minister and the Department of Planning already fully understand all the issues. All other South Australian government agencies, and the Commonwealth, have also had input into the finished document, in a process designed to ensure that there are no surprises or unresolved issues.

For our part, we look forward to receiving responses from members of the public, and we remain willing to modify the proposal to enhance the environmental, social or economic outcomes of the development, or address the concerns of objectors where we can.

Of course, supporters of the project can also have their say and we urge shareholders who want to express a view to do so. The public notice calling for comments is attached to this letter, giving details of the process for making a submission. Please contact the Company if you require any help, using the address support@kipt.com.au.

The EIS has three components: environmental, social and economic. Almost certainly, most of the objections will be based on the perceived environmental effects of the development, or of forestry itself.

There are three reasons for this: the first is that the social and economic benefits of the project for the Island and for the State are so significant that no credible objector would complain on this basis; the second is that Kangaroo Island is an ecological treasure and people are rightly cautious about the environmental effects of any development; the third is that the principal opponent of the development, the nearby on-land aquaculture business, has for some time suggested that our project will be very harmful to the environment in all sorts of ways, albeit without any credible evidence to support its contentions.

So, we expect almost all objections to be based on perceived negative environmental effects of the proposed development. Environmental objections are normal and to be

¹ Environmental Impact Statement

expected with any major development, including for the particular reasons I have set out earlier.

In this letter, I will focus on the environmental reasons for supporting the project. Yes, we believe that the project will in fact be good for the environment. This is unusual for a major infrastructure project. The EIS contains detailed evidence supporting this view. There are four points that I want to make.

1. Plantation forestry is good for the environment

Here is a photo from the National Library of Australia, taken in February 1995 at the height of the so-called “forest wars”. The then Keating government was under pressure to protect



native forests from logging ... and to protect jobs in regional communities that depended on access to native forests. Log trucks blockaded Parliament House: seemingly a no-win situation. The solution, or at least part of it, was to encourage greater investment in plantation forestry, including native species such as the Tasmanian Bluegum that grows so well on Kangaroo Island.

All states and territories signed a national agreement aimed at getting more trees in the ground, so that plantation timber could be harvested and supplied to domestic and overseas mills, while preserving important native forests from further logging.

Some native forest logging would continue, but it would be in areas of low conservation value and would be constrained and protected by regional forest agreements. So, today, disputes

are mainly about the terms of regional forest agreements covering regenerated native forests, rather than about whether iconic conservation areas like the Lemonthyme, Tarkine Wilderness or the Styx Forest will be logged. Making up for the protection of these areas of high ecological value, plantation forestry is now an important part of Australia’s, and the region’s, timber supply.

Most of the timber plantations on Kangaroo Island were planted as a direct result of this national initiative to lessen Australia’s dependence on unsustainable native forest logging,

including through generous tax provisions. The peak years for planting on the Island were 2005, 2006, 2007 and 2008, when thousands of hectares of bluegum forestry were established. All of this involved planting by hand, which is still the only way of getting a good result. Some trees were even planted by the Premier of South Australia himself.² Of course, most of the companies that planted those trees have since gone broke, because of their dependence on revenue from setting up tax-driven schemes.

Meanwhile, the world's demand for lumber and, especially, for wood fibre has kept on growing. And Kangaroo Island's timber has grown well too. There is a very real sense in which every plantation tree that is harvested enables a native forest trees, somewhere in Australia or in our region, to be left in its natural state.

The Smith Bay wharf development enables a sustainable plantation timber industry to exist on the Island, so that a plantation crop, rather than a native forest somewhere else, can be harvested in future. It is for this reason that most peak environmental organisations support plantation forestry and participate in schemes like FSC and PEFC³, the environmental certification schemes to which KIPT is accredited.

So, the need to protect high conservation value native forests is a very good environmental reason for supporting the wharf that makes plantation forestry viable on Kangaroo Island, which is one of the best places in Australia for growing timber.

2. Carbon sequestration

In very rough terms, a tonne of freshly-harvested timber is 50% CO₂ by weight. Timber is made from CO₂ and water, through photosynthesis⁴. So, a plantation producing 25 tonnes of timber per hectare per annum (a typical growth rate for bluegums on KI) is sequestering 12.5 tonnes of CO₂ per hectare each year at no incremental cost. There simply is no other method of sequestering carbon dioxide that compares with the efficiency of a timber plantation.

In most of the countries with which Australia compares itself, plantation forestry is included in national carbon accounting, so that plantation owners who meet the necessary criteria receive annual payments through the sale of carbon credits. These payments do not cover all the carbon that is fixed in the timber, because a proportion of that timber ends up in products that are themselves incinerated or allowed to decompose, returning some of the CO₂ to the atmosphere. However, some clever people have worked out the percentage of the CO₂ stored in timber that is fixed permanently, and the resulting annual cheques are very welcome to forest owners. They make more land economically viable for forestry.⁵

² There is a photo in the EIS of the then Premier planting one of our trees.

³ Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC).

⁴ Neither cellulose nor lignin, the two main fibres in wood, have a single atom of nitrogen in their structures!

⁵ Note that all the carbon that is currently locked up in coal was fixed by trees, as cellulose and lignin, during what is now called the carboniferous period, the beginning of which corresponds with the evolution of lignin in conifers.

If Australia's bipartisan national target of a billion more plantation trees is to be realised, then including forestry fully in the national carbon accounts is a necessary first step. It certainly works in New Zealand, which has the same target and, unlike Australia, is making good progress towards it. And if you are wondering why forestry isn't already included, it is because it is so efficient ... and the preference of government has been to make Emissions Reduction Fund payments to other sectors that simply couldn't compete if forestry was included. The whole forestry industry remains hopeful that evidence-based, lowest cost abatement will triumph in the end.⁶

Anyway, whether KIPT gets financially rewarded for it or not, the ability of our plantations to sequester carbon in a permanent and sustainable way is another sound environmental reason to support the wharf that makes all this possible.

3. But what about the wharf itself?

The KI Seaport at Smith Bay has been designed for minimal (but not zero) environmental impact. Having a long causeway and approach jetty means that the required dredging is minimal by the standards of most ports. The average dredge depth is about 80cm and the material to be dredged is mainly coarse sand and cobbles, which do not result in persistent sediment plumes. The hydrodynamic environment is well-understood, so that off-site effects can be controlled. The EIS suggests stop-work criteria that are set at one tenth the level of any possible harm to filter-feeding organisms. In other words, the whole process can be managed without any significant environmental risk.

The use of a jetty structure and a floating pontoon minimises seabed disturbance in the footprint of the structure itself, so that the solid causeway is used only in relatively shallow water near the shore, where its footprint is small.

Opponents of the project have argued that Smith Bay is a pristine environment, and, to a certain extent, they are correct. Most of the Island's coastline is largely unspoiled. Indeed, three-quarters of it has been included in marine parks. However, Smith Bay has not. Two factors currently degrade the waters at Smith Bay. One is eutrophic creek effluent: phosphate- and nitrogen-rich water flowing off grazing and cropping land into the two creeks that drain into the Bay. These creeks also contain other nasties of the sort that issue from the aft end of livestock, and associated microorganisms, some of them harmful.

The other source of pollution is the nearby onshore abalone farm. While not nearly as big as the facility its owners are planning to build at Portland, it still discharges a significant and constant stream of wastewater into Smith Bay, at an estimated rate of around 20kl per

⁶ Shareholders may also be interested to know that the New Zealand government encourages (financially) on-farm forestry, as a means of controlling the extent to which eutrophic run-off from agricultural activities (especially dairying and grazing) enters lakes and streams. This is in addition to carbon credits. Trees are, it turns out, rather good at cleaning up subsurface water and protecting waterways.

minute. This outflow is similar to that from any other intensive animal husbandry operation, including animal waste and uneaten food, albeit very diluted.

The EIS shows that there is a healthy plant and animal ecosystem in the waters of Smith Bay, notwithstanding these two factors (the creeks and the onshore abalone farm). The area is rich in marine species and visited by whales and dolphins from time to time. The only real problem is that, sometimes, creek effluent is sucked up by the abalone farm's intakes, which poses a risk to abalone health and seems to have caused stock losses in the past. The causeway section of the KI Seaport is located between Smith Creek and the farm's intakes and will limit the extent to which polluted creek water can affect the quality of seawater being taken in by the aquaculture farm, greatly reducing this problem.



And, as everyone knows, marine structures tend to act as an attractive habitat for marine plants and animals. The existing wharves on Kangaroo Island (Penneshaw, Kingscote and Vivonne Bay) are noted fishing spots and are frequently visited by dolphins and whales. Travellers on ferry services across Backstairs Passage are regularly joined on the journey by dolphins, and whale sightings are a most welcome addition to the tourist offering.

So, we expect the KI Seaport to have no significant negative effect on the marine environment, and to create a slightly improved situation for the onshore aquaculture business located to the east of the proposed facility. Whales and dolphins will still visit, and the fishing from the wharf itself will be terrific in theory ... but prohibited in practice ... you can't operate an international bulk port with members of the public wandering about! But there is good fishing almost everywhere on Kangaroo Island. Here is a photo taken at Vivonne jetty, overlooking Vivonne Bay, near Point Ellen, where the view is so beautiful, I guarantee you won't be disappointed, even if you don't catch anything.

4. Minor impacts more than offset

There are only two effects that are unavoidable and which will need to be offset. I wrote last quarter about the restoration program that will more than offset the seagrass that will be lost in the footprint of the development itself. And I also mentioned our undertaking to offset any increased roadkill of echidnas by reducing numbers of their main predator, feral cats, and reducing the number of truck movements by seeking approval for high productivity vehicles.. The net effect will be more echidnas. I have decided to include an echidna



picture again in this letter, for no other reason than that they are very cute. And I also mentioned last quarter our willingness to co-fund marine biosecurity surveillance, to ensure that any exotic arrivals from cruise ships, private boats, ferries or timber vessels are detected early.

So, taking all these factors into account, we are confident that our project is good for the environment. That is important in its own right but also good for the Company itself, as an increasing number of institutional and private shareholders seek to invest only in companies that, like KIPT, are making a positive difference ... socially, economically and environmentally.

With best wishes and thanks,



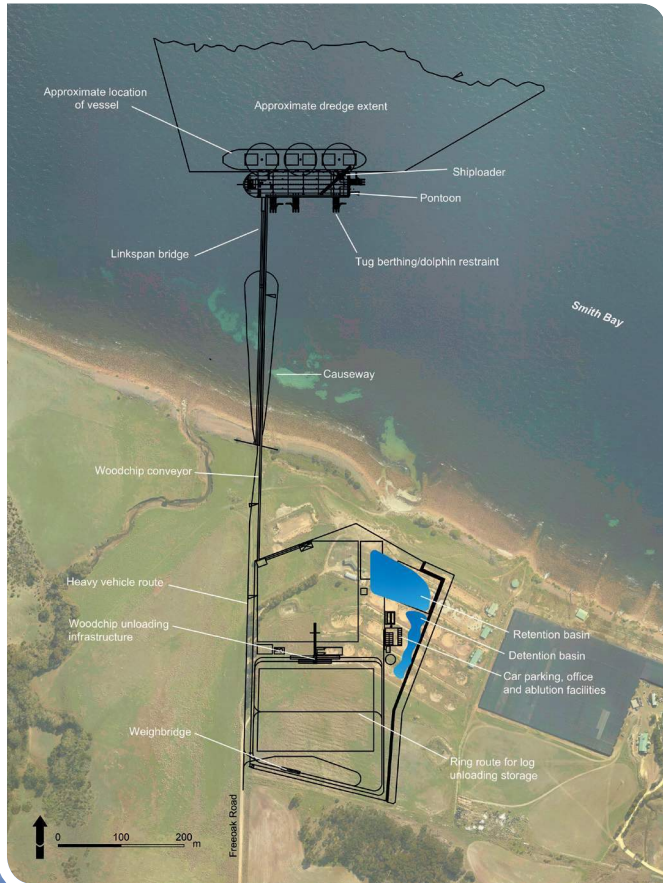
John Sergeant
Managing Director

Encl. Brochure on EIS public consultation.

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.

Deep Water Port Facility

Smith Bay, Kangaroo Island



Applicant

Kangaroo Island Plantation Timbers Ltd.

Location

Smith Bay, on the north coast of Kangaroo Island approx 20km west of Kingscote.

Proposal

The development involves:

- > construction of a wharf including:
 - a rock armoured causeway (250m long x 41m wide)
 - a suspended deck jetty (170m long x 41m wide)
 - link span bridge connected to a floating pontoon, tub mooring facilities
 - berthing pocket to a depth of up to 13.5m
 - retaining structures
 - mooring dolphins
- > timber stockpile and storage facilities (for logs and woodchips)
- > ship loading and materials handling systems (including conveyors)
- > laydown areas
- > internal roadway
- > ancillary facilities (including administration buildings and services infrastructure).

It is expected that export vessels (Panamax and Handymax) will be berthed at the wharf between 30 and 75 days per year with 10 to 20 ship movements per year.

Transport of timber products to the site is proposed along public roads.



Government of South Australia
Department of Planning,
Transport and Infrastructure

Assessment Process

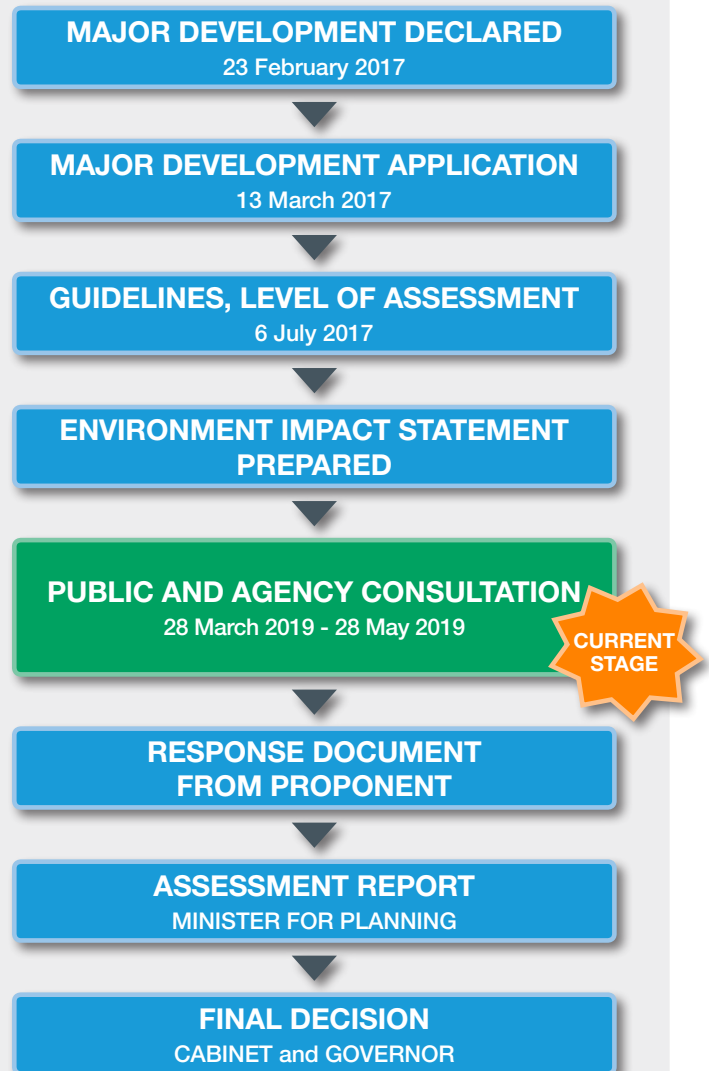
The proposal is being assessed under the Major Development provisions of *Development Act 1993*. This is the highest level of assessment and is reserved for matters of key environmental, economic and/or community significance.

Key matters related to this proposal

- > Marine Water Quality
- > Coastal Processes
- > Terrestrial & Marine Ecology
- > Biosecurity
- > Air Quality
- > Noise and Light
- > Traffic & Transport
- > Economic & Social impacts

Key issues explored in the EIS

- > Dredging of the seafloor to deepen the berthing basin
- > Construction of a causeway (approx. 250m into Smith Bay)
- > Potential impacts on coastal processes – movement of seawater, sand and seagrass wrack
- > Silt plumes from dredging operations, causeway construction, shipping movements and runoff from the site
- > Mobilisation of sediments during dredging and onshore activities
- > Risk of spill of fuel and hydraulic fluids during dredging operations
- > Site clearance and excavation
- > Underwater noise and vibration during construction & during operation
- > Dust emissions, noise, vibration and lighting during construction and operation
- > Biosecurity associated with international and domestic shipping movements including the potential introduction of noxious weeds, pests and disease
- > Potential impacts on marine mammals, including risk of vessel strike
- > Transport of timber to and from the site and use of local roads
- > Flow on effects for the Kangaroo Island economy and communities



Major Development Assessment Process FAQ's

What happens with my submission?

Your submission is provided to the applicant. The applicant must prepare a Response Document that responds to all submissions made and all issues raised during the consultation period.

Your submission is also used to inform the Assessment Report prepared by the Minister for Planning. Cabinet and the Governor also have regard to all submissions during the final decision making process.

All submissions and the applicant's Response Document are made publically available. The Assessment Report is also made publically available.

Who is responsible for assessing the proposal?

The Minister for Planning assesses the proposal. An Assessment Report is prepared by the Department of Planning, Transport and Infrastructure on behalf of the Minister. The Assessment Report is prepared in consultation with other State, and where necessary Commonwealth government agencies.

The Minister's Assessment Report contains recommendations in relation to the proposal.

The Minister provides the Assessment Report, along with all other documents produced during the process to Cabinet and the Governor. This information is used to inform the final decision.

Who is responsible for making the final decision on the proposal?

Cabinet considers the proposal, along with the Ministers' assessment and recommendations and provides advice to the Governor, who then makes the final decision. The decision will be published in the Government Gazette.

What is taken into consideration during the assessment and decision making process?

The Minister, Cabinet and the Governor take into consideration all documents produced during the process including the Environmental Impact Statement, the Response Document prepared by the applicant, all public and agency submissions made during the formal consultation period, as well as the provisions of the relevant Development Plan, the Planning Strategy and any other relevant Government policies and/or strategies.

The Minister, Cabinet and the Governor also take into consideration technical advice provided by the Government agencies.

How to have your say

Release of Environmental Impact Statement for comment

The applicant has prepared an Environmental Impact Statement (EIS).

The EIS addresses the environmental, social and economic issues identified in the Guidelines (released by the then Development Assessment Commission in July 2017) and is available for review and comment from 28 March 2019 to 28 May 2019.

Obtaining the EIS

The EIS is available for viewing at the following locations:

- > Department of Planning, Transport and Infrastructure (DPTI), Level 5, 50 Flinders Street, Adelaide
- > Kangaroo Island Council, 43 Dauncey Street, Kingscote, Kangaroo Island
- > Office of the Commissioner for Kangaroo Island, 43 Dauncey Street, Kingscote, Kangaroo Island

The EIS document is available online, via the following link: www.sa.gov.au/planning/majordevelopments

Copies of the EIS are available from the above locations.

Submissions

Written submissions on the EIS are invited until 5pm on 28 May 2019. Submissions can be made via:

- > letter addressed to:

Minister for Planning

C/- Robert Kleeman

Unit Manager Policy and Strategic Assessment

Department of Planning, Transport and Infrastructure
GPO Box 1815, ADELAIDE SA 5000

- > email to majordevadmin@sa.gov.au

Submissions are made available for public inspection and are included in the proponent's Response Document (released for public information at a later date).

Public Meetings

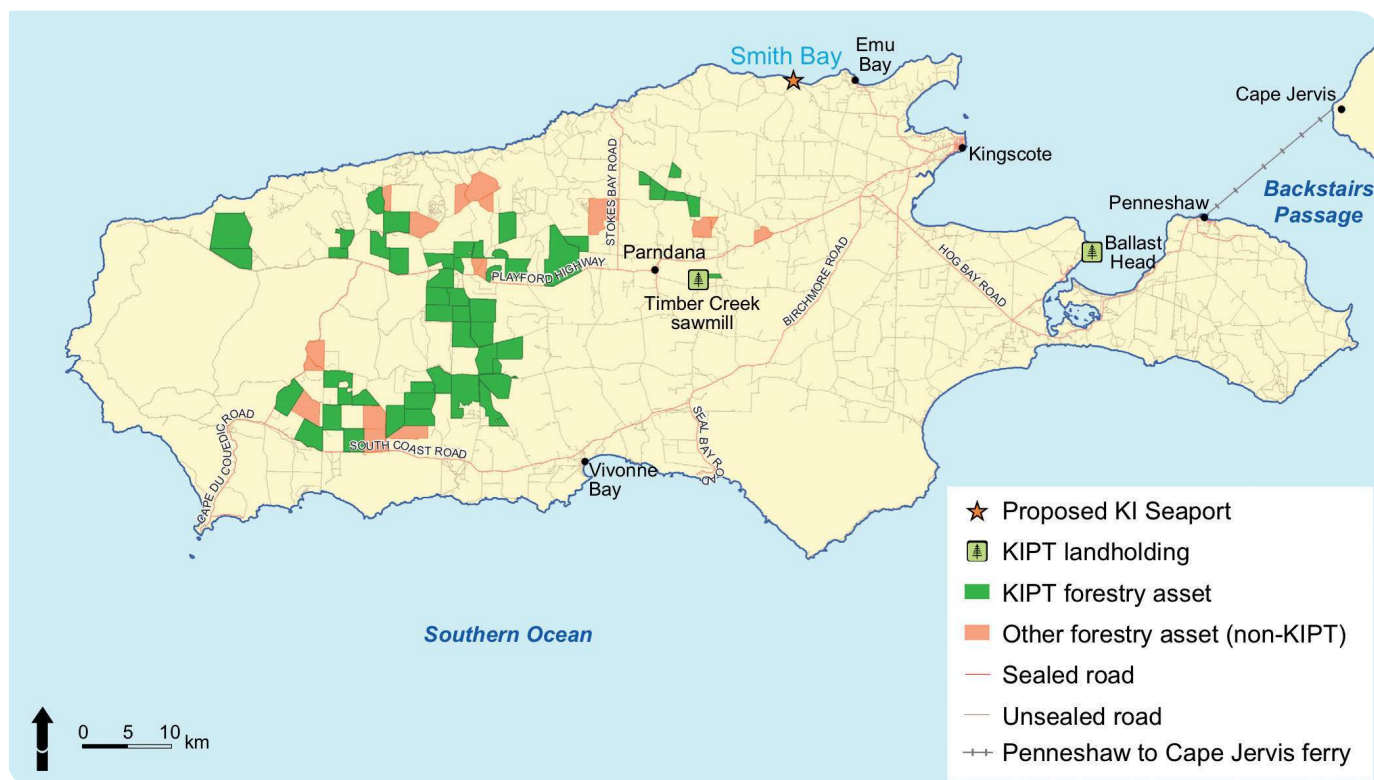
DPTI will be convening the following public meetings during the public consultation period:

Wed 1 May 2019 – 1pm to 7pm – Kingscote Town Hall, Dauncey Street, Kingscote, Kangaroo Island

Thurs 2 May 2019 – 11am to 4pm – Parndana Town Hall, Parndana, Kangaroo Island

Tues 7 May 2019 – 12pm to 6pm
Ground Floor, 50 Flinders Street, Adelaide

Further information is available online at:
www.saplanningportal.sa.gov.au



Further information

Call – 1800 PLANNING – press option 1

Visit – www.sa.gov.au/planning/majordevelopments

Email – majordevadmin@sa.gov.au