

KI Plantation Timbers Ltd (ASX:KPT)

Bushfire recovery update

March 2020



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Post-fire strategy

Forestry	<p>No change. Remain committed to timber plantation business</p> <ul style="list-style-type: none"> • Predominantly hardwood for chip, most profitable land use • Optimise estate size and structure, through land sales and purchases
Post-fire harvest	<p>Harvest current treecrop, including fire-damaged timber</p> <ul style="list-style-type: none"> • To enable early re-planting • KI Seaport essential
Future funding	<p>Repay debt, preserve cash, minimise or eliminate equity capital requirement</p> <ul style="list-style-type: none"> • Work with business partners, government, established forestry investors and bank for investment and working capital
KI Seaport	<p>No change. Timber still expected to pay for port</p> <ul style="list-style-type: none"> • Maximise value of Seaport to Company and Community

12 weeks on: reconstruction well underway

- Final component of EIS submitted to government: **Complete**
- Management review of treecrop resource: **Complete**
- Initial review of KI Seaport economics: **Complete**
- Revised business plan: **Underway**
- Detailed post-fire harvest plan: **Underway**
- Restoration of infrastructure, fencing: **Underway**
- Progress payments of insurance policies: **Complete**
- Final payout of insurance policies: **Underway**
- Submission to government bushfire inquiries: **Underway**



Agenda

- Current situation
- Remaining sensitivities
- Building Shareholder wealth



No significant effects from Covid-19

- Covid-19
 - has no lasting impact on business prospects
 - Company employees following government advice
 - new policies and procedures to protect employees, stakeholders and wider community
 - off-Island employees and consultants avoiding travel to Kangaroo Island
 - on-Island day to day work continues
- KIPT continuing with project planning to commence KI Seaport construction immediately following approval





Ravine fire emerging from national park

3 Jan 2020, KIPT firetruck, West End Highway, Kangaroo Island
Photo Tim Wilson

Summer 2019/20: total extent of fire

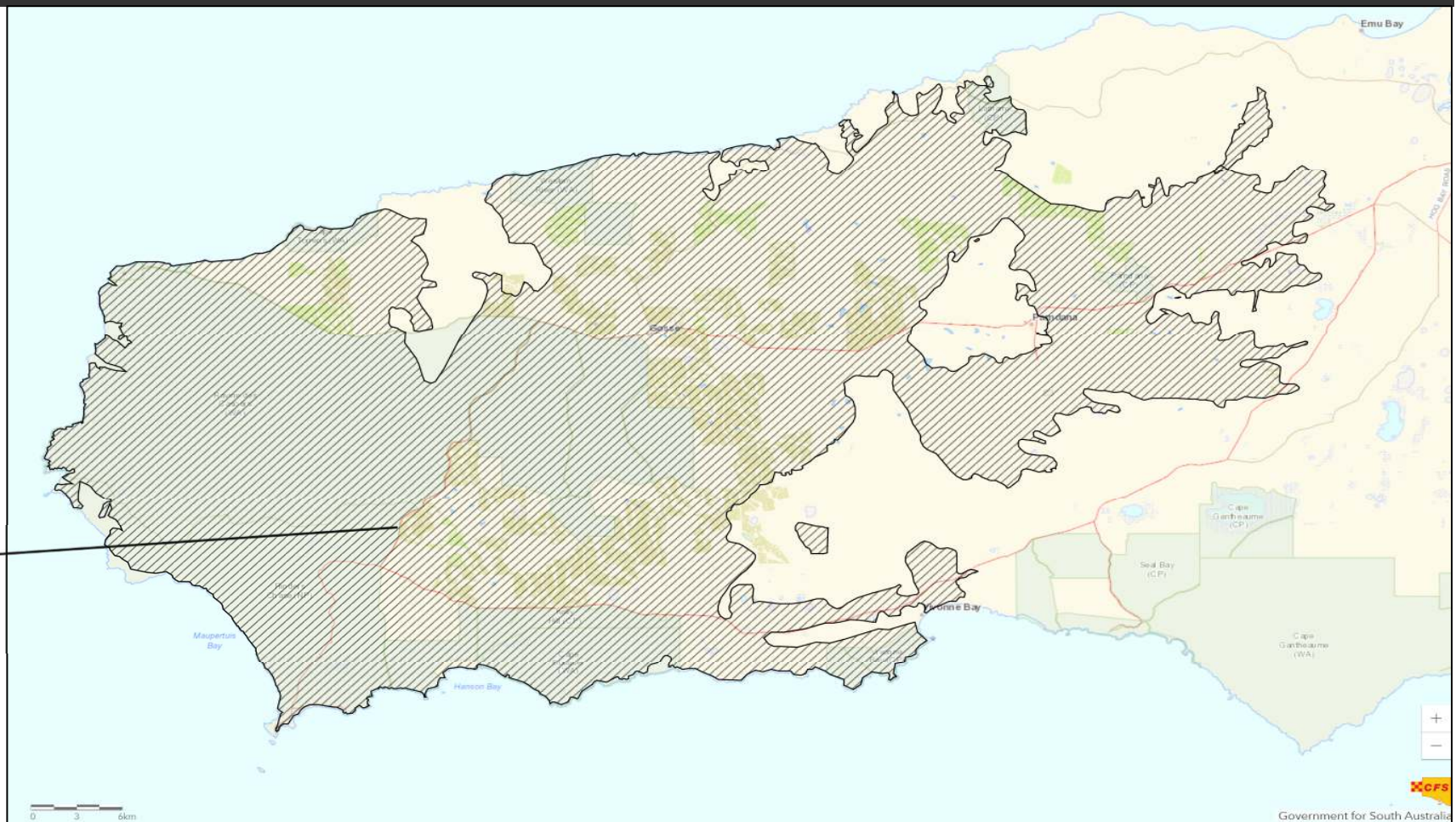


Plantations



Fireground

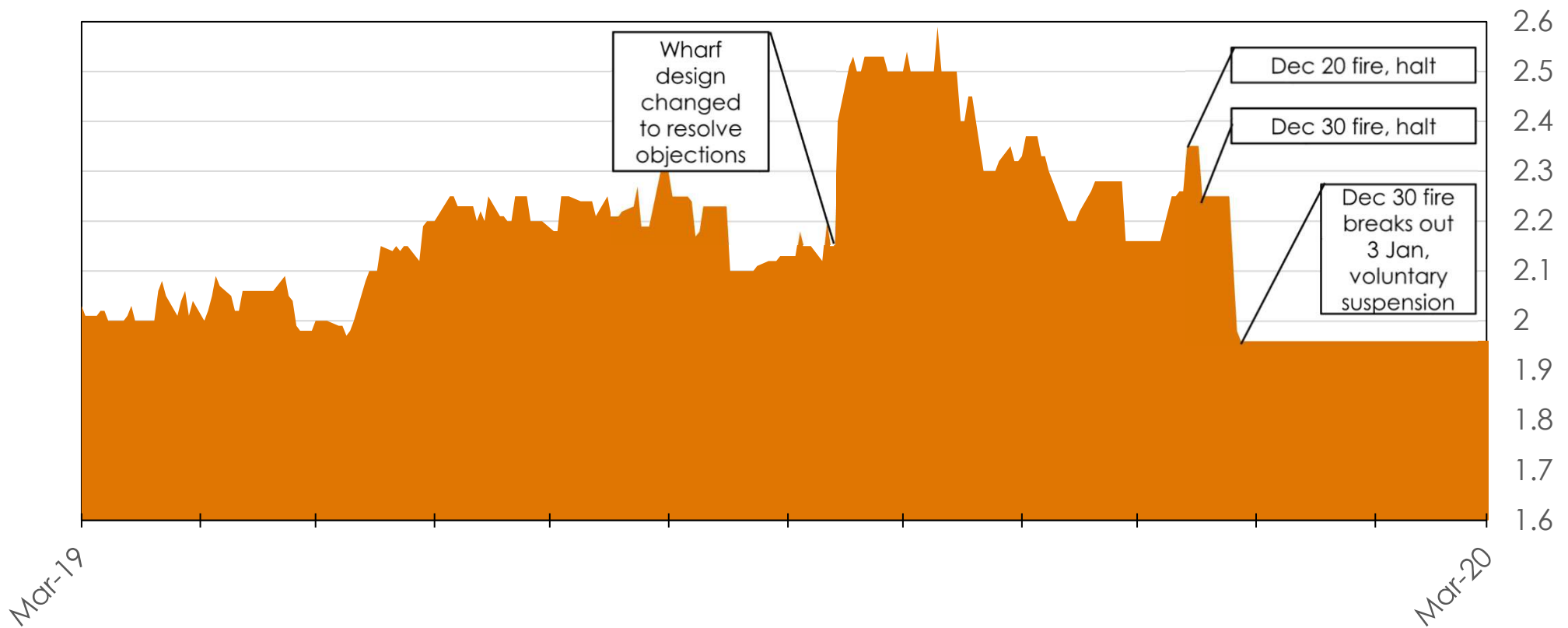
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KPT corporate information

- 56.4m shares on issue
 - 0.9m performance rights almost certain to expire worthless, given 2019/20 fires
- \$21.7m drawn debt to be repaid from \$50m+ additional insurance proceeds
- 100% ownership of land, timber and wharf site
 - final EIS for KI Seaport submitted to state government for approval 23rd March
 - project planning targeting immediate start following approval from government
- Substantial holders (approx.)
 - 23.6% Samuel Terry Asset Management
 - 11.9% WH Soul Pattinson (SOL)
 - 7.2% Paradise Investments
 - 12.2% Directors
- 1H20 accounts show NTA \$1.86 per share (post fires), mainly land and cash

12 month share price



Treecrop inventory post fires*

- Fire damaged trees (95%) ascribed \$0 value in 1H20 accounts
 - 5% of treecrop – ground fire with only minor canopy damage
 - 35% – severe canopy damage (as pictured right)
 - 55% – total canopy destroyed
- Unburnt 5% carried in 1H20 accounts at 30 June 2019 value
- Total standing timber approx. 3.5m green tonnes



KI Seaport at Smith Bay

- Approval process
 - Draft EIS 28 Jan 2019
 - Public Consultation 28 Mar – 28 May
 - change in marine design announced 19 Sep, Addendum to EIS Submitted 30 Oct
 - second Public Consultation 7 Nov – 20 Dec
 - final Response Document 23 Mar 2020
 - approval expected in coming months
- Pontoon refitted in Vietnam, will be deployed to Australia for wharf construction



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Insurance

- \$60m treecrop insurance virtually certain and included in 1H20 accounts
 - \$10m already received from insurer, \$50m outstanding
 - additional \$5m may be recoverable, policy wording ambiguous and internally contradictory regarding interaction of excess(es) and policy annual limit
- Post-fire salvage capable of supporting construction of KI Seaport, at zero or nominal return to forest
- Treecrop insurance includes up to \$3m reimbursement for incidental expenses, not included in 1H20 accounts
- Seven houses and various sheds insured at replacement value (approx. \$6m), not included in 1H20 accounts. Initial payment of \$1m received.
- Legal action initiated to recover from neighbour's insurer in respect of Dec 2018 fire ignited negligently, not included in 1H20 accounts
- Final resolution of all these matters may not occur before 30 June 2020 and not all monies may be fully recovered

Tree survival, productivity, value

- Fire-affected pine will die but will have recoverable value
 - storage under sprinklers or in water bodies possible proven technique
 - market prices yet to be established
 - rate of deterioration yet to be established
- Some fire affected eucalypts may survive but future growth likely to be uneconomic
 - ongoing monitoring program for health and market value of fire affected trees
- Some timber could be felled and stockpiled as logs prior to sale, to facilitate replanting, or left on the stump



Timber format and logistics

- Land must be cleared, even if at a loss, but post-fire harvest cannot proceed at scale without deep water port
- Most, if not all, timber will be exported via port, once approved and built
 - volume (about 3.5m tonne) is too great for alternative methods
 - port is more economically efficient and safer
 - various interim solutions to be considered, given deterioration of softwood in particular during port construction period
- Fire-affected timber could be exported in log, chip or pellet form
- Some degraded timber may be suitable for biomass plant on Island, subject to regulatory consent and finance, which seems unlikely in required timeframe

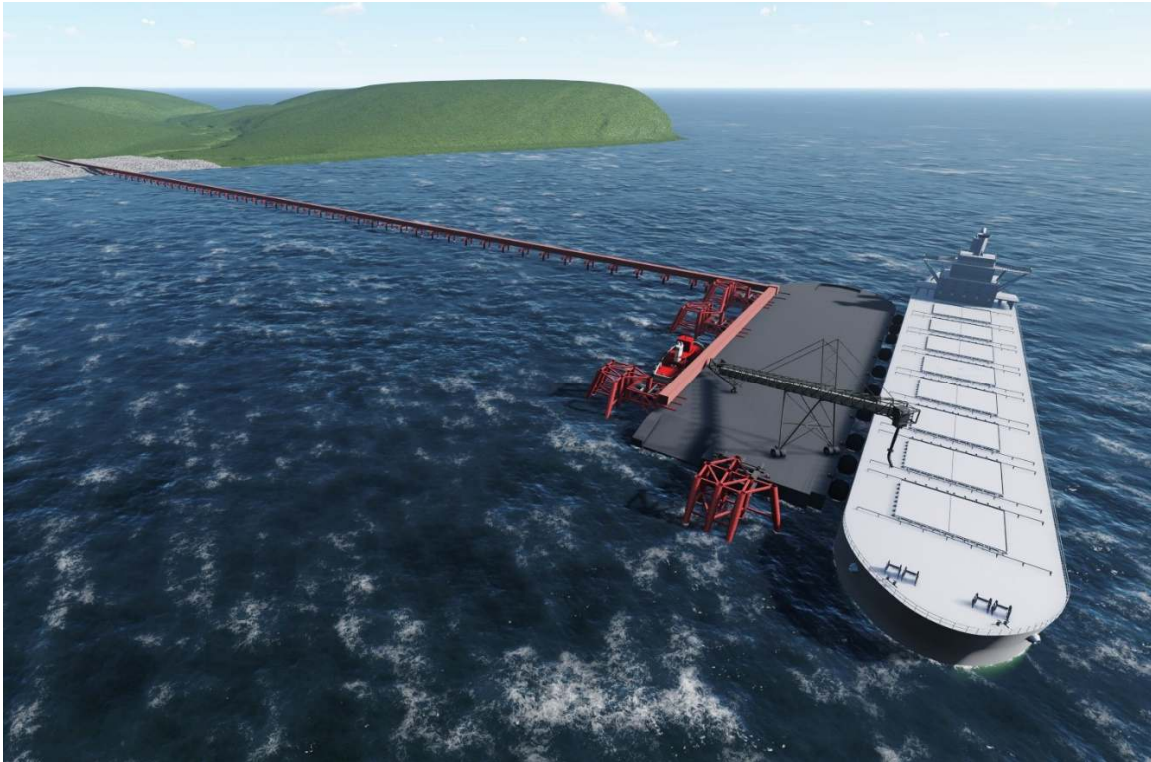


Wharf approval timing, conditions



- KI Seaport development assessment process has been subject to several extended delays and additional steps
 - further delays possible, but SA Government now recognises importance of project, both for KPT and for Island's recovery, freight access and economic resilience
 - approval conditions remain uncertain, may affect potential third party usage

Commonwealth government contribution



- KIPT has sought discussions with Commonwealth regarding support from National Bushfire Recovery Fund
 - few if any shovel-ready infrastructure projects in bushfire affected areas
 - fewer still with private funds committed
 - substantial economic benefits already well defined in EIS
- Commonwealth funds may assist in realising full multi-user import/export potential
- Board assumes no government contribution in base case

Future land use

- Kangaroo Island has proven track record of very high productivity forests
 - timber generates much more \$/ha than competing land uses, and significantly greater employment
- Softwood and, especially, hardwood, timber market dynamics remain very favourable, notwithstanding short-term disruption from Covid-19
- Various strategies available to reduce maximum probable loss from future fires
 - integrate forestry into other farming and grazing activities
 - use new plantings and short-rotation coppice crops as living, productive firebreaks (see photo)
 - non-contiguous plantings
 - greater fire-fighting integration with National Parks, CFS



Photo shows 2007 Flinders Chase fire arrested by first few rows of juvenile eucalypts

Future land use (cont.)

- Hardwood timber remains highest and best use of most KI land with 500mm+ annual rainfall
 - however, there are benefits in having a patchwork of land uses
- Emissions Reduction Fund allows CO₂ payment for new forestry in sub 600mm/annum rainfall country
 - likely to be extended to 600mm+ in coming years
 - carbon price and policy remains uncertain
- With a port in place, it will make sense to
 - expand forestry, while returning some land to grazing
 - work with ag sector on other exportable crops, such as grains and hay, and on farm inputs
- KIPT will maintain accreditation



Summary table of sensitivities

	Low/unfavourable case	High/favourable case	Notes
KI Seaport SA Government approval	Sep-20	Jun-20	Approval conditions TBC
Treecrop insurance policy ambiguity	\$0m	\$5m	Insurer's view not yet understood
Treecrop incidental expenses	\$1m	\$3m	Firefighting, fencing, claim preparation etc
Building replacement insurance	\$2m	\$6m	\$1m already received
Neighbour's insurer re 2018 fire	\$0m	\$4m	Timing uncertain
Chain & burn v post-fire harvest (est.)	(\$15m)	\$0m	Harvest requires KI Seaport
	(\$12m)	\$17m	
Total effect per share	(21c)	30c	1H20 NTA = \$1.86 per share

Excluded from this summary

Port construction cost, and value once built
 Profits from future land use
 Working capital and finance considerations
 Overheads, cost control

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Building shareholder wealth

- Immediate investment upside from upward revaluation of timber to market value has been eliminated by the fires
- Licence to build and operate deep water port remains a source of value, based on timber alone, especially as approval nears
 - profitable third party port usage difficult to predict but likely to materialise
 - agricultural land values likely to rise once port approved
- High rainfall KI land is demonstrably among the best timber country in Australia. KPT owns approx. 15,000ha plantable and is well positioned to acquire more
 - KI timberland is a long-term stable cash-generating asset
 - timber market fundamentals are highly favourable and likely to remain so



Post fire, KPT is a land bank and cashbox.
The NTA backing of \$1.86 per share in 1H20 accounts is real and productive,
with an added infrastructure play.