

19 December 2023

Dear Investor

Important Update on TFS Sandalwood Project 2011 (Project)

On 11 October 2023, Sandalwood Properties Ltd (SPL), in its capacity as the Responsible Entity for the MIS Projects, informed investors about the engagement of KPMG to conduct an analysis of the MIS Projects and provide insights into their future prospects.

Purpose for the KPMG Review

Market conditions for the tendered sale of sandalwood have deteriorated over the last several years, resulting in adverse outcomes for recent MIS projects. Furthermore, the anticipated increase in sandalwood supply to the market is expected to exacerbate the current challenges further escalating the risk for future projects.

Our primary obligation is to act in the best interests of investors. Given the negative results of the most recent projects, and SPL's expectation of further deterioration in relation to ongoing projects, the commissioning of KPMG to undertake an independent analysis was deemed necessary for SPL to make well-informed decisions for the benefit of investors.

KPMG has now concluded its analysis and presented their final report to the SPL board. Subsequently, SPL has reviewed the report and is now able to update investors on the outcomes and the next steps.

Outcome from the KPMG Review

KPMG have formed the opinion that no return to investors is expected if the Project proceeds to a full harvest. In addition to this, the costs of proceeding to a full harvest will result in significant losses for the Project, some portions of which may subsequently be recovered from investors.

Attached to this letter is the financial assessment from KPMG as it relates to the Project.

After taking into account the findings from KPMG's review, SPL has formed the view that the Project is not viable and should be wound up on the grounds that it is just and equitable and in the best interest of investors.

We believe that winding up the Project provides the best outcome for investors due to the following reasons:

- (i) There is no anticipated return for investors if the Project proceeds to a full harvest, considering the projected yield and market demand, and the associated costs of completing the Project exceeding the gross proceeds from sale.
- (ii) There is an unacceptable risk to investors being required to contribute to the costs in proceeding to a harvest with no reasonable prospect of generating a profit.
- (iii) By winding up the Project, the obligation of investors to pay any further amounts are extinguished.

In a winding-up scenario, investors will receive no return, with no harvest and no net proceeds of sale. However there is also no obligation for investors to pay any further funds.

Next Steps

Pursuant to section 601ND of the Corporations Act and the provisions outlined in the Project Constitution, SPL will immediately proceed to file an application to the Supreme Court of Western Australia to seek the Court's determination on whether the Project should be wound-up. Whether the Project should be wound up will be determined by the Court. Investors will be able to participate in that process, whether that be in opposition or in support of the winding up.

An application to the Supreme Court of Western Australia is also to be made to seek the Court's determination on whether the Projects referable to other years should also be wound-up.

After the initial Directions hearing, the Court will provide instructions to SPL on the next steps, including what steps might be taken by those investors wishing to exercise a right to be heard in the proceedings. We will keep investors informed accordingly.

Annual Fees

Ordinarily we would be shortly issuing you with the Annual Fee and Rent for the year ended 30 June 2024. In light of the matters raised above, SPL does not intend to issue these invoices as it would not be in the best interests of investors to make any further payments in relation to the Project.

The issue in this regard extends beyond the prospect of the winding up of the Project. To the extent that investors might permissibly defer the payment of annual rent and annual management fees, SPL's view is that it is in investors' (separate) interests that they do so. Amounts paid now are unlikely to be recoverable in the Project.

For present purposes, SPL will not be rendering the annual invoices. This is an issue that will be raised with the Court at the first opportunity.

FAQ

We understand the gravity of this situation and have prepared a FAQ to assist investors. This FAQ and other information can be found on the SPL website – www.sandalwoodproperties.com.au

Should you have any questions or concerns, please contact our investor information line on (08) 9723 7372 or email projects@sandalwoodproperties.com.au.

Yours sincerely



Kent Burwash
Chairman
Sandalwood Properties Ltd

11 Expert's opinion on TFS Sandalwood Project 2011

11.1 Opinion 1 (Grower Outcomes)

- 11.1.1 Grower Outcomes on the basis that the scheme runs to its scheduled Harvest date and assuming Quintis **does** purchase sandalwood in the Tender Process.
- 11.1.2 Based on the assumptions and inputs detailed herein, I have calculated aggregated Grower Outcomes will be **A\$(2,197,981)** for Scheme 2011.
- 11.1.3 This indicates that there is an estimated net loss for the Scheme overall. The outcome is reported at the overall Scheme level and does not take into consideration SPL's right to recover the losses, or any part thereof, from Growers. Refer to section 17 for consideration of the recoverability for certain costs from Growers.

11.2 Opinion 2 (ex Quintis Grower Outcomes)

- 11.2.1 As explained in section 6.2 Grower Outcomes and ex Quintis Grower Outcomes are the same for Schemes 2008, 2009, 2010, 2011, 2013, 2014, 2015 and 2016.

11.3 Opinion 3 (Grower Outcomes – each Grower)

- 11.3.1 Grower Outcomes schedule of estimated net returns to, or contributions required from, each Grower, on the basis that the Scheme runs to its scheduled Harvest date.
- 11.3.2 A full schedule of Grower Outcomes can be found at Appendix D.1, A summary of the Scheme 2011 scheme can be seen in the Table below:

Table 42 Summary of Returns to Growers per Grower Outcomes

Grower Outcomes	Scheme 2011	
	Total (A\$)	No. of Growers
Outcome > \$0	-	-
Outcome \$0 & -\$10,000	(634,953)	108
Outcome < -\$10,000	(1,563,028)	50
Aggregate	(2,197,981)	158

- 11.3.3 Based on the current key assumptions, I do not estimate that there will be a return to Growers participating in Scheme 2011 should the Scheme run to its scheduled Harvest date.
- 11.3.4 The outcome is reported at the overall Scheme level and does not take into consideration SPL's right to recover the losses, or any part thereof, from Growers. Refer to section 17 for consideration of the recoverability for certain costs from Growers.

11.4 Opinion 4 (ex Quintis Grower Outcomes – each Grower)

- 11.4.1 As explained in section 6.2 Grower Outcomes and ex Quintis Grower Outcomes are the same for Schemes 2008, 2009, 2010, 2011, 2013, 2014, 2015 and 2016.

11.5 Opinion 5 (Grower Outcomes – Winding Up scenario)

- 11.5.1 Grower Outcomes schedule of estimated net returns to, or contributions required from, each Grower, on the basis that the Scheme is wound up on 20 December 2023.
- 11.5.2 A full schedule of Grower Outcomes can be found at Appendix D.3, A summary of the Scheme 2011 scheme can be seen in the Table below:

Table 43 Summary of Returns to Growers per Winding Up

Winding Up	Scheme 2011	
	Total (A\$)	No. of Growers
Outcome > \$0	-	-
Outcome \$0 & -\$10,000	-	158
Outcome < -\$10,000	-	-

Winding Up	Scheme 2011	
	Total (A\$)	No. of Growers
Aggregate	-	158

11.5.3 Based on the assumptions detailed in the Report, I have calculated that there will not be a return to Growers should Scheme 2011 be wound up.

11.6 Analysis

11.6.1 Key scheme metrics are illustrated in the table below:

Table 44 MIS Tender Cashflow

MIS TENDER CASHFLOW		Scheme 2011
Total Cash Inflows		\$2,345,389
Total Cash Outflows		(\$4,543,370)
Net Cashflow		(\$2,197,981)
Negatives	\$	(\$2,197,981)
Positives	\$	\$0
Negatives	#	158
Positives	#	0

11.6.2 The inputs for my analysis are captured in the table below:

Table 45 Summary of Inputs for Scheme 2011

Inputs	Indexation Rate	Unit	Scheme 2011
Corresponding calendar year			2027
Harvest year			2027
Planted ha.		ha.	88
Non-electing ha.		ha.	96%
Harvest ha.		ha.	88

Inputs	Indexation Rate	Unit	Scheme 2011
Tonnes of HW tendered		(t)	94
Pricing achieved at tender		\$/t	25,000
Volume		(t)	250
Quintis purchases		(t)	0
Yield		HW/t	2.50
Yield reduction		%	(55.52%)
Updated yield		HW/t	1.11
Adjusted yield		HW/t	1.11
Turn on storage fees?			No
Storage costs (If turned on)	2.8%	\$	2,234
Remove sunk costs? (Years 13 & 14 Fees)			No
Costs of Harvest and Processing	2.8%	\$	20,102
Restoration Costs	2.8%	\$	5,584
Selling and Marketing Fee		%	5.00%
RE Cost Recoveries	2.8%	\$	293,716
Deferred fees		%	16.05%
Trust monies		\$	-
Market capacity		(t)	250
Excess market capacity		(t)	(156)

11.7 Outcomes for Growers

11.7.1 As noted in the tables above, it appears that there is no return to Growers expected if the Scheme proceeds to a full Harvest given:

- (a) The low yield anticipated for this project.

- (b) Differing from Schemes 2007 - 2010, the maximum market volume cap of c.250t is greater than the tonnes Harvested, nonetheless the Project is still forecasting a loss. In addition, for the reasons set out above in sections 1.3.2 I don't believe that the addressable market would be as high as 250t, and therefore the amount sold is likely to be less than modelled and hence the losses are likely to be greater.
 - (c) Anticipated market saturation as a direct result of significant oversupply anticipated to be brought onto the market from corporate and institutional investors from 2024 as well as the cumulative unsold tonnage from previous Harvested Schemes (although the latter point has not been modelled).
 - (d) Associated Costs of Harvest and Processing, Selling and Marketing Fee and other costs exceeding the likely Gross Proceeds from Sale.
- 11.7.2 In a winding up scenario, Growers are estimated to receive no aggregated return which represents:
- (a) No Harvest of the plantation area.
 - (b) No Net Proceeds of Sale available to distribute to Growers.
 - (c) No obligation for Growers to pay further funds.
- 11.7.3 Accordingly, it is my opinion that Scheme 2011 should proceed to be wound up on the basis that:
- (a) There is no expectation that Growers will receive Net Proceeds of Sale should a Harvest be completed.
 - (b) There is a risk that Growers may be required to make a contribution towards recoupment of the RE's costs in proceeding to a Harvest.
 - (c) In a winding up, it appears there is no ability for the RE to recoup expenses (deferred or otherwise) from Growers.
- 11.7.4 Important to note is that these results have been modelled on an addressable market, being the ability to sell 250t, however even if it was economic to Harvest, which the results have not indicated is the case, then the following factors would likely depress any surplus proceeds which would make the Scheme uneconomic to proceed to Harvest:
- (a) Oversupply of corporate and institutional Quintis Group production;
 - (b) Associated downward pressure on market demand due to potential oversupply; and
 - (c) Availability of buyers to participate in the Tender Process for the Scheme produce when having regard to alternate suppliers of Sandalwood notwithstanding that I am instructed Quintis currently plans on proceeding in the purchase of Forest Produce in the Scheme Harvest year.