



QUINTIS®
SANDALWOOD ALBUM

End of Year Update

December 2018

WE ARE THE WORLD'S ONLY TRUSTED GUARDIAN OF THIS
PRECIOUS SUPER-INGREDIENT, SANDALWOOD ALBUM.



1.1 A NEW DAWN

On the 30th of October 2018, Quintis emerged from receivership after receiving AUD\$145 million in funding from its new owners. With a restructured balance sheet, Quintis is now a well-funded private company which owns and/or manages around 12,500 hectares of Indian Sandalwood plantations and distributes Sandalwood products to a variety of end markets.

Over the past 20 years Quintis has created the world's largest sustainable and continuous supply of this endangered species, with 5.5 million Indian Sandalwood trees covering around 12,500 hectares which are owned by the Company directly, MIS investors, high net worth individuals and institutional investors.

Key Points:

- Quintis is a fully funded company with **A\$145 million** of cash in the bank. These funds will ensure Quintis can continue maintaining the plantations to obtain the best yield possible, as well as develop the end markets for Indian Sandalwood.
- The rights of all MIS growers have been protected – there are no changes to what you will pay if Quintis is the manager of your plantation. Quintis will continue to offer MIS growers the ability to defer plantation management fees.
- All (100%) of the institutional investors and over 96% of the high net worth investors continue to use Quintis as the manager of their plantations.
- MIS plantations have been continually maintained. This includes leading up to, during and post receivership.
- Quintis' business model is focussed on efficiently maximising the yield from all Sandalwood plantations and maximising the sales value of the harvest proceeds – this focus is perfectly aligned with your interests.
- At harvest, growers trees will be sold in an open market sales process, in which all market participants will be encouraged to bid. This process will be overseen by PwC to ensure growers' interests are protected. PwC is an independent accountancy firm and is not involved in other services provided to Quintis.

1.2 2018 HARVEST

This year we harvested 15-year-old trees (planted in 2003) from Quintis and institutional investor owned plantations. The yield results indicate record levels of heartwood from a Quintis managed plantation. The average heartwood per tree across the 8,517 trees was 13.3kg – this is 38% above the previous high of 9.7kg achieved from the 2016 harvest and double the average heartwood achieved in last year’s harvest.

Quintis has over 80 forestry staff managing your plantations day to day. Refer to our recent harvest video for an example of their industry leading operations -

<https://quintis.com.au/corporate/news/2018-harvest-video/>.



SPECIALISED EQUIPMENT TO MAXIMISE YIELD – FOREST SHAVINGS HOPPER

What is it?

Quintis has designed a hopper that catches the shavings generated when the specialised “Feller Buncher” cuts the base of the Sandalwood tree. The entire forest shavings collection system was designed and manufactured in Kununurra.

How it works?

The “Feller Buncher” utilises a circular saw blade to separate the primary stem from the root system. Through this process a small percentage of the tree is turned into shavings. The Forest Shavings Hopper catches the shavings using the centrifugal force generated through the circular saw blade. In other forestry operations these shavings are lost in the process.

Advantage to Grower

The shavings have value as they are able to be processed into oil. These shavings will be sold as part of the tender process on behalf of the Growers. To get a sense of the impact, from a previous harvest, the forest shavings contributed approximately 1.5% to the heartwood collected.



1.3 PROJECT ACCOUNTS

The FY17 and FY18 project accounts were unable to be finalised during the Receivership as the Board of Sandalwood Properties Ltd (your Responsible Entity) and the auditors could not sign off due to the liquidity issues at Quintis Limited.

Now that we are out of Receivership, we are focused on completing the project accounts as soon as possible. The major delay in finalising these accounts is that the auditors require a new independent forester to analyse and review all assumptions before the model that values the plantations can be finalised. This means the Project Accounts are expected to be available by the end of the first quarter of 2019.

The Project Accounts will include an update on your plantations from an Independent Expert Forester as well as updated data on survival rates and yield expectations.

In the meantime, if you have any specific queries about your plantations then please contact us at (08) 9215 3000 or info@quintis.com.au.

1.4 PLANTATIONS

With daily temperatures exceeding 40 degrees Celsius and the wet season just commencing, it has been hot and sticky for our operational teams in Northern Australia.

Sandalwood does not thrive for long periods of inundation or flooding, and therefore well designed and maintained drainage systems are imperative to ensure that water is quickly removed from the paddocks. Quintis can confirm that all on-farm drainage systems have been maintained and we are well prepared for the onset of the wet season.



Wet Season Activities

December sees significant rainfall coming to most of the northern regions. With that comes high temperatures, humidity and therefore plenty of weed growth. As a result, the primary focus for the next three to four months will be on weed control and pest control. Access to land can be difficult due to the high levels of rainfall (wet ground) so weed control is performed sporadically when an opportunity arises.

The pests are also very active at this time of the year and are generally treated with an aerial application of insecticide. Some insects are controlled with systemic insecticides that are typically applied prior to the wet season and which offer protection through the period.

Irrigation requirements reduce as the rains come so when there are adequate levels of moisture in the soil, pumps are turned off.

The trees also grow very well in the hot and wet months, so all species are actively growing at present.

From December until March, maintenance of machinery and equipment can be done while access to the plantations is limited by rainfall and wet soil.

1.5 INDIAN SANDALWOOD – THE END MARKET

Sandalwood derives its value from the heartwood which is contained within the trunk, butt and major branches. It is yellow-brown to red in colour and it contains the Sandalwood oil, which gives the tree its value either as timber or as oil.

Given Quintis' market leading position, leading up to and during the Receivership process, there was significant disruption to the end markets. Following the successful recapitalisation, there have been several key and positive developments:

- Quintis has appointed a new Chief Marketing Officer who has significant sales and distribution experience in Asia and North America. He will join us in the New Year with a mandate to expand our team of sales people;
- We have key sales staff in China and India who have already participated in several trade shows and have been involved in introducing significant potential end market buyers;
- We have completed our first ever sale of Indian Sandalwood oil into India to a leading Indian manufacturer. This oil will be used in a skincare product that will be sold throughout India;
- We are finalising our first sale of Quintis Indian Sandalwood products to the traditional medicine market in China. This is a substantial market in the world's second largest economy – for example, there are over 4,000 hospitals in China focussed on traditional medicine;
- We have launched a range of new skin products containing Indian Sandalwood oil (see image below). The 6 products selected are based on proven sellers and are positioned as premium products; and
- We continue to supply Indian Sandalwood to several significant existing customers, both domestic and international.



1.6 SANDALWOOD FROM THE STARS

Over 20 years Quintis has created unrivalled intellectual property (IP) in the plantation management of Indian Sandalwood, an achievement made possible only by continuous research and development (R&D) and a passion for innovation.

Today, Quintis grows more than 5.5 million Indian Sandalwood trees across Australia's tropical north - the world's largest plantation estate of this precious species. To maximise the health of these plantations, intensive monitoring and management is required. Recently, our internal team began using satellite imagery to monitor plantation performance and this is assisting our forestry team to optimise tree growth.

As well as providing information on tree numbers, the satellite imagery measures levels of red and near infra-red light, an important marker of tree health.

Photosynthesising trees reflect the infra-red band while the ground absorbs, thus the trees appear red and the ground blue/green. This provides a more precise view of tree health and vigour.



The image above shows a section of our forest in near infra-red light

Far from replacing physical site inspections, satellite imagery allows for the early detection of issues to ensure staff can prioritise areas for inspection and make more informed assessments.

The R&D team will use the satellite imagery to identify trends and shape forestry practices, helping to build on the unrivalled IP Quintis already holds in the plantation management of Indian Sandalwood.



Please note that our office will be closed from noon on Friday the 21st of December and reopening on Wednesday the 2nd of January 2019.