

TFS GOLD CARD SANDALWOOD PROJECT 2003

ANNUAL REPORT
FOR THE YEAR ENDED 30 June 2012

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RESPONSIBLE ENTITY'S REPORT

The Directors of Tropical Forestry Services Ltd (ACN 080 139 966), the Manager for TFS Gold Card Sandalwood Project 2003 ("the Project"), present their report together with the financial statements of the Project for the period ended 30 June 2012.

Directors

The names of the Directors of Tropical Forestry Services Ltd during the period and at the date of this report are:

Richard ALSTON (Chairman)
Frank WILSON (Resigned 10 November 2011, Re-appointed 12 June 2012)
Ronald EACOTT
Adam GILCHRIST
Ian THOMPSON (Resigned 12 July 2012)
Tim CROOT (Resigned 12 July 2012)
Julius MATTHYS (Appointed 23 December 2011)
Stephen ATKINSON (Appointed 12 July 2012)
Jim CRAIG (Appointed 10 November 2011, Resigned 23 December 2011)

Principal Activities

During the period the principal activity of the Project was the management of a Sandalwood plantation.

Change of State of Affairs

There was no significant change in the state of affairs of the Project.

Results of Operation, Financial Position and Likely Developments

The Project made a profit for the financial year ended 30 June 2012 of \$841,129 (2011: \$530,578).

This is due to the increment in the valuation of the sandalwood trees during the year ended 30 June 2012.

The Responsible Entity is currently undertaking a comprehensive inventory analysis over its entire plantation. These latest stockings/survival rate data was not available at the date of preparation of this report and as such is not reflected in the tree numbers and valuation as per Note 5. This comprehensive analysis is also collecting data on the qualitative aspects of the plantation i.e. tree size, heartwood yield etc. This data and the impact of this data on the tree valuation were also not available at the date of preparation of this report. The Responsible Entity expects to provide the latest stocking/survival rates and data on the qualitative aspects during this financial year.

Planting commenced on 30 June 2003 and was completed on 10 August 2003. The Plantation is now just over 9 years old.

Due to the low quantities of auctioned heartwood, the valuation of the plantation for the current year has been derived by obtaining the current Indian sandalwood oil price as obtained from the "Public Ledger" publication and applying that price to expected oil yields within the plantation trees to arrive at an approximate for the relevant value of the sandalwood logs. The equivalent Australian dollar Public Ledger price for Indian sandalwood oil as at 30 June 2012 was A\$2,441 per kg (2011: A\$2,345).

Scheme Property

At 30 June 2012 there were 144 units held by investors in the project. In addition to this, the responsible entity or its associates held 105 units in the equivalent project which have not been reflected in these statements. There were no units issued in the project during the year, and no units transferred from an investor to the responsible entity or its associate.

The net assets of the scheme at 30 June 2012 were \$4.6m. This primarily consists of the valuation of the sandalwood trees held by investors. The valuation is based on a discounted cash flow formula for the expected tree value at harvest applied to the estimated survived tree count in the plantation.

During the year fees of \$223,686 were received from investors and paid to the responsible entity or its associates.

RESPONSIBLE ENTITY'S REPORT (CONTINUED)

Expert Forester's Report

The following is an extract from a report prepared for the 30 June 2012 period by our expert forester, Mr Ray Fremlin:

This report reviews the status of the plantation managed under this project and the maintenance operations carried out during the year.

The TFS Gold Card Project 2003 is situated on the Packsaddle Plain approximately 7 kilometres southeast of the Kununurra townsite on King Location 385. It covers part of two management units; compartment 7 which was planted in 2003 and is now 9 years old (and 5 to 6 years from harvest) and compartment 6 which was planted in 2004 and is now 8 years old and 6 to 7 years from harvest. The sandalwood trees in both compartments are supported by three long-term host species, *Cathormion umbellatum*, *Dalbergia latifolia* and *Cassia siamea*. All are leguminous species which absorb nitrogen from the air and deposit it into the soil where it can be accessed by the trees.

Maintenance operations consisted largely of controlling weeds and irrigating the plantation.

Interrows in compartment 6 were slashed in August 2011 while the same operation was carried out in Compartment 7 in January 2012. The objective of slashing is to facilitate the movement of irrigation water and reduce the fire hazard. Vines that were threatening to smother some trees in compartment 6 were removed manually.

The rows of *Cassia siamea* are not vigorous thus hedging has not been carried out. Some of the pruned sandalwood trees in both compartments had developed epicormic shoots on their lower stems. These were pruned off during the year to keep the boles branch-free.

Sandalwood stock for compartment 6 is 264 sph and for compartment 7 it is 272 sph

Irrigation continued throughout the dry season in both compartments.

The maintenance of plantation infrastructures was an on-going task. Fire prevention measures included the ploughing and burning-off of firebreaks between the plantation and the adjacent pastoral lease. This produced a strip more than 100 metres wide of land free of flammable material.

Water supply channels and drains were cleared of silt as the need arose and access tracks within the plantation were maintained in trafficable condition. All infrastructures were kept free of weeds by the occasional spraying of herbicides.

In summary, the plantation is in a healthy condition and is being well managed although sandalwood stocking is below target.

Environmental Management

The project's operations are subject to significant environmental regulations under the laws of the Commonwealth and State.

The directors of the Manager have considered the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the directors have determined that the NGER Act will have no effect on the project for the current or subsequent financial year. The director will reassess this position as and when the need arises.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 19 of the financial report.

For and on behalf of the Directors of Tropical Forestry Services Ltd:



Richard Alston
Chairman

Dated: this 2nd day of October 2012

Independent Auditor's Report

To the Members of TFS Gold Card Sandalwood Project 2003

We have audited the accompanying financial report of TFS Gold Card Sandalwood Project 2003 ("the scheme"), which comprises the balance sheet as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration.

Directors Responsibility for the Financial Report

The directors of the responsible entity of the scheme are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standards AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditor's Report

To the Members of TFS Gold Card Sandalwood Project 2003 *(Continued)*



Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Auditor's Opinion

In our opinion:

- a. The financial report of TFS Gold Card Sandalwood Project 2003 is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the scheme's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;

The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

BENTLEYS
Chartered Accountants

PHILIP RIX FCA
Director

DATED at PERTH this 2nd day of October 2012

**TFS GOLD CARD SANDALWOOD PROJECT 2003
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR TO 30 JUNE 2012**

	2012	2011
	\$	\$
REVENUE		
Lease & management fees	223,686	200,599
Net increment in net value of biological assets	841,129	530,578
	<u>1,064,815</u>	<u>731,177</u>
EXPENSES		
Audit fees	4,630	4,410
Filing fees	1,069	1,063
Leasing expenses	20,132	18,054
Management fees	203,554	182,545
Reimbursement of expenses by Manager	(5,699)	(5,473)
	<u>223,686</u>	<u>200,599</u>
PROFIT BEFORE INCOME TAX	<u>841,129</u>	<u>530,578</u>
Income tax	-	-
PROFIT / (LOSS) FROM CONTINUING OPERATIONS	<u>841,129</u>	<u>530,578</u>
PROFIT / (LOSS) FOR THE PERIOD	<u>841,129</u>	<u>530,578</u>
OTHER COMPREHENSIVE INCOME		
Total comprehensive income for the period	-	-
TOTAL COMPREHENSIVE INCOME	<u>841,129</u>	<u>530,578</u>

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**TFS GOLD CARD SANDALWOOD PROJECT 2003
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

	NOTE	2012 \$	2011 \$
CURRENT ASSETS			
Trade and other receivables	3	-	36,390
Other	4	47,000	32,000
TOTAL CURRENT ASSETS		<u>47,000</u>	<u>68,390</u>
NON CURRENT ASSETS			
Biological assets	5	4,599,710	3,758,581
Other	4	278,000	220,000
TOTAL NON-CURRENT ASSETS		<u>4,877,710</u>	<u>3,978,581</u>
TOTAL ASSETS		<u>4,924,710</u>	<u>4,046,971</u>
CURRENT LIABILITIES			
Trade and other payables	6	-	36,390
Unearned Income	7	47,000	32,000
TOTAL CURRENT LIABILITIES		<u>47,000</u>	<u>68,390</u>
NON CURRENT LIABILITIES			
Unearned Income	7	278,000	220,000
TOTAL NON-CURRENT LIABILITIES		<u>278,000</u>	<u>220,000</u>
TOTAL LIABILITIES		<u>325,000</u>	<u>288,390</u>
NET ASSETS		<u>4,599,710</u>	<u>3,758,581</u>
GROWERS' FUNDS			
Undistributed income reserve		4,599,710	3,758,581
EQUITY		<u>4,599,710</u>	<u>3,758,581</u>

The Statement of Financial Position should be read in conjunction with the accompanying notes.

**TFS GOLD CARD SANDALWOOD PROJECT 2003
STATEMENT OF CHANGES IN GROWERS' FUNDS
FOR THE YEAR TO 30 JUNE 2012**

	Undistributed Income \$	Total \$
	<u> </u>	<u> </u>
Balance at 01.07.10	3,228,003	3,228,003
Profit for period	530,578	530,578
Sub-Total	<u>3,758,581</u>	<u>3,758,581</u>
Balance at 30.06.11	<u>3,758,581</u>	<u>3,758,581</u>
Balance at 01.07.11	3,758,581	3,758,581
Profit for period	841,129	841,129
Sub-Total	<u>4,599,710</u>	<u>4,599,710</u>
Balance at 30.06.12	<u>4,599,710</u>	<u>4,599,710</u>

The Statement of Changes in Grower's Funds should be read in conjunction with the accompanying notes.

**TFS GOLD CARD SANDALWOOD PROJECT 2003
STATEMENT OF CASH FLOWS
FOR THE YEAR TO 30 JUNE 2012**

	NOTE	2012 \$	2011 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from growers		355,444	158,698
Payments to suppliers		(355,444)	(158,698)
	8(b)	<u>-</u>	<u>-</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Payment for establishment of plantations		-	-
		<u>-</u>	<u>-</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Other		-	-
		<u>-</u>	<u>-</u>
Net increase / (decrease) in cash held		-	-
Cash at beginning of financial year		-	-
Cash at end of financial year	8(a)	<u>-</u>	<u>-</u>

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR TO 30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the TFS Gold Card Sandalwood Project 2003. The TFS Gold Card Sandalwood Project 2003 is an investment scheme for sophisticated investors.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards; including Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, except for Sandalwood trees (which are biological assets), which are recorded at net market value. This report does not take into account changing money values or, except where stated, current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The financial statements are presented in Australian dollars which is the project's functional and presentation currency.

Accounting Policies

(a) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Project and the revenue can be reliably measured. All revenue is stated net of the amount of goods and services tax (GST). The following specific revenue recognition criteria must also be met before revenue is recognised.

Operating revenue:

- Lease and Management Fees are recognised as revenue in the period to which they relate.

(b) Biological assets

Sandalwood trees are measured at the Manager's Director's assessment of their market value at each reporting date. The net market value is determined as being the net present value of expected future cash flows (discounted at a risk adjusted rate).

Net increments or decrements in the market value of the Sandalwood trees are recognised as revenues or expenses in the Statement of Comprehensive Income, determined as:

- (i) the difference between the total net market values of the trees recognised as at the beginning of the period and the total net market values of the trees recognised as at the reporting date; less
- (ii) costs incurred during the reporting period to acquire and plant Sandalwood trees.

Costs incurred in maintaining or enhancing trees are recognised as expenses when incurred. Therefore, those costs are not included in the determination of the net increment in net market values.

(c) Income Tax

Under current legislation, the scheme is not subject to income tax provided the Growers are presently entitled to the income of the Project.

Unrealised gains and losses on investments which are regarded as income, are transferred to Growers' funds and are not distributable and assessable until realised. When income is realised, tax will be paid by the growers at the marginal rates of tax that exist under the relevant tax legislation at the date of realisation.

(d) Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and in banks, and short-term deposits at call.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR TO 30 JUNE 2012 (CONTINUED)

(e) Trade and other Receivables

Trade receivables are recognised and carried at original invoice amount, or the amount due less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The amount provided for is the portion of deemed uncollectible after the value of trees as security has been taken into account. Bad debts are written off as incurred.

(f) Trade and other Payables

Liabilities for creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at the principal amount. Interest is recognised as an expense on accruals basis. Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

(g) Unearned Income

Prepaid Lease and Management Fees are recognised on a straight line basis over the term of the project as this is considered to closely approximate the value of the service provided. The unearned portion is deferred and recorded as unearned income.

(h) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(i) Impairment of Assets

At each reporting date, the economic entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income.

(j) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Financial instruments are initially measured as cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR TO 30 JUNE 2012 (CONTINUED)

Classification and Subsequent Measurement

Financial assets at fair value through profit and loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the company's intention to hold these investments to maturity. Any held-to-maturity investments held by the company are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the Statement of Comprehensive Income.

(k) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Critical Accounting Estimates and Judgements

The directors of the Manager evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group.

Key Estimate – Biological Asset valuation

As referred to in Note 1(b) and Note 5, as required under the accounting standards the directors of the manager make an estimate as to the market value of the standing sandalwood trees held by the scheme. The carrying value of the sandalwood trees at year end is shown in Note 5. The market value is calculated as the net present value of expected future cash flows. The estimates used in calculating the expected future cash flows include assumptions on yields in terms of survival rates of trees, and heartwood and oil content of the trees, as well as assumptions as to the future price of the heartwood logs. All estimates are based on the best information currently available and where there is any doubt the scheme uses the more conservative estimates.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR TO 30 JUNE 2012 (CONTINUED)**

Key Estimate and Judgement – Provision for Impairment of Receivables

The entity assesses the likelihood of any impairment of the entity's receivables at each reporting date by evaluating those payments that are in arrears and making a judgement as to the likelihood of that receivable not being paid based on all knowledge available of the debtor. When recovery is assessed as doubtful, the entity estimates by how much the security held by the company against the receivable will be insufficient to adequately cover the debt and records a provision accordingly. The total provision for impairment of receivables at year end is shown in Note 3.

Key Judgement – Environmental issues

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation and the directors understanding thereof. At the current stage of the company's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

The financial report was authorised for issue on 28 September 2012 by the board of directors of the responsible entity.

	2012 \$	2011 \$
2. CASH AND CASH EQUIVALENTS		
Cash at bank	-	-
3. TRADE AND OTHER RECEIVABLES		
Outstanding fees (i)	-	36,390
Less: Provision for impairment of receivables	-	-
	-	36,390
(i) Outstanding fees represent moneys receivable from growers for the cost of establishment of the plantation. No interest has been charged on amounts due.		
4. OTHER ASSETS		
Current		
Prepayments (i)	47,000	32,000
Non Current		
Prepayments (i)	278,000	220,000
(i) prepayments represent lease and management fees paid to the manager in advance of the period in which the lease and management services are to be provided.		
5. BIOLOGICAL ASSETS		
Sandalwood trees at cost of establishment (still to be planted at balance date)	-	-
Sandalwood trees at net market value (planted at balance date)	4,599,710	3,758,581
	4,599,710	3,758,581
(a) Physical quantity of sandalwood trees planted and owned		
Number of sandalwood trees	6,403	6,403
Area under lease (planted)	24.0	24.0
Area under lease (to be planted)	0.0	0.0
Growers in project (units)	144	144

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR TO 30 JUNE 2012 (CONTINUED)

(b) Nature of Asset

Investors in the TFS Gold Card Sandalwood Project 2003 who are referred to as "Growers" subscribed for Sandalwood Lots of size one-sixth of a hectare each upon which Sandalwood trees have been established.

The Sandalwood plantation is situated at King Location 385, approximately 8 kilometres from the Western Australian township of Kununurra.

The land upon which the Sandalwood plantation is located is owned by the Responsible Entity. Growers lease the land from the Responsible Entity for the duration of the Project. The Project will continue in operation until the date on which the last of the Growers has been advised that the produce of the Sandalwood crop from each leased area which is leased by the Grower has been harvested and that the relevant Lease and Management Agreement has been terminated but in any event, not later than 30 June 2019.

The net market value of the Sandalwood trees has been determined in accordance with a Directors' valuation in accordance with the AASB's to reflect the market value of plantation.

(c) Significant Assumptions

Significant assumptions made in determining the net market value of the trees are:

- 100% of the trees will be harvested and sold within 13 to 15 years of being planted.
- The price of sandalwood is constant and determined by market prices, being \$2,500 USD/kg (2011: \$2,500 USD)
- Forecast heartwood production at 25kg to 30kg per sandalwood tree at 40% to 50% of moisture content.
- Projected oil content of 3.15% (2011: 3.15%) from forecast heartwood.
- The costs expected to arise on harvest are constant in real terms and consists of the following:
 - Harvesting and processing (oil extraction) costs, estimated at \$76,000 per hectare; and
 - Marketing and sales costs, estimated at 5% of proceeds.
- The pre-tax average real rate at which the net cash flows have been discounted range between 15%-17% per annum.
- Cash flows exclude income taxes and are expressed in real terms.
- US Dollar exchange rate used 0.976 AUD (2011: 0.938 AUD)

(d) Financial Risk

The Responsible Entity is exposed to financial risks arising from changes in the price of sandalwood. The Responsible Entity does not anticipate that the prices will significantly decline in the foreseeable future. This risk does not have an impact on the cash flows of the business in the short term as the sandalwood trees still have at least 5 to 7 years until harvested.

	2012	2011
	\$	\$
6. TRADE AND OTHER PAYABLES		
Trust funds payable to manager (i)	-	36,390
GST payable	-	-
	-	36,390
	-	36,390

(i) Trust funds payable to the manager represents the sum of monies payable by growers to the manager under the lease and management agreement yet to be paid across. No interest is payable on outstanding amounts.

7. UNEARNED INCOME

Current

Prepaid lease & management fees	47,000	32,000
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Non Current

Prepaid lease & management fees	278,000	220,000
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Represents lease and management fees received in advance of services provided.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR TO 30 JUNE 2012 (CONTINUED)**

	2012 \$	2011 \$
8. CASHFLOW INFORMATION		
(a) Reconciliation of cash		
Cash balance comprises:		
Cash at bank	-	-
(b) Reconciliation of net operating income to net cash flows from operating activities		
Net operating income	841,129	530,578
Adjustments:		
(Increase) / decrease in net receivables	36,390	2,039
(Increase) / decrease in prepayments	(73,000)	64,000
(Increase) / decrease in market value of sandalwood trees	(841,129)	(530,578)
Increase / (decrease) in accounts payable	(36,390)	(2,039)
Increase / (decrease) in unearned income	73,000	(64,000)
Net cash inflow / (outflow) from operating activities.	-	-

9. RELATED PARTY DISCLOSURE

(a) Manager

The Manager of the TFS Gold Card Sandalwood Project 2003 is Tropical Forestry Services Ltd, whose immediate and ultimate holding company is TFS Corporation Limited.

(b) Directors and Key management

The Directors and key management of the Manager during the period were:

Richard ALSTON (Chairman)
 Frank WILSON (Resigned 10 November 2011, Re-appointed 12 June 2012)
 Ronald EACOTT
 Adam GILCHRIST
 Ian THOMPSON (Resigned 12 July 2012)
 Tim CROOT (Resigned 12 July 2012)
 Julius MATTHYS (Appointed 23 December 2011)
 Stephen ATKINSON (Appointed 12 July 2012)
 Jim CRAIG (Appointed 10 November 2011, Resigned 23 December 2011)
 Quentin MEGSON – Chief Financial Officer
 Paulo CORREA – Operations General Manager

(c) Fees paid or payable to the Manager

The Manager receives all Establishment, Lease and Management Fees which have been paid by the Project during the period.

The Manager provides sandalwood plantation establishment and management services for TFS Gold Card Sandalwood Project 2003 and carries out the custodial and administrative functions.

Transactions between TFS Gold Card Sandalwood Project 2003 and Tropical Forestry Services Ltd result from normal dealings with that company as the Project's Manager.

(d) Holdings of Directors and Director Related Entities

A total of 3 lease interests are held by Directors or parties related to Directors on the same terms and conditions as other Growers. No amount is outstanding at year end.

(e) Key management compensation

No compensation has been paid by the scheme, or its Manager directly to key management personnel

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR TO 30 JUNE 2012 (CONTINUED)

10. AUDITOR'S REMUNERATION

Bentleys are the auditors of the Project and the Project's Compliance Plan. During the year the auditors received remuneration in relation to the project of \$4,630 (2011: \$4,410)

11. OPERATING SEGMENTS

Identification of reportable segments

The Responsible Entity has identified one reportable segment for the Project, being the growing and harvesting of sandalwood trees, based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The board reviews financial information on the same basis as presented in the financial statements and has therefore determined the operating segment on this basis.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Project.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Project as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Geographic Segment

The Project operates in one geographical segment, being Australia.

12. SUBSEQUENT EVENTS

Subsequent to year end Ian Thompson and Tim Croot have resigned (on 12 July 2012) and Stephen Atkinson has been appointed.

There has not been any matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Project.

13. FINANCIAL RISK MANAGEMENT

(a) Financial risk management

The Project's financial instruments consist mainly of trade and other receivables.

(i) Treasury risk management

The executive chairman and chief financial officer of the Manager regularly analyse financial risk exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The overall treasury risk management strategy is to assist the project in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

(ii) Financial risk exposures and management

The main risks the project is exposed to through its financial instruments are liquidity risk, foreign currency risk, credit risk, and agricultural risk.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR TO 30 JUNE 2012 (CONTINUED)

Interest rate risk

The Project was not exposed to interest rate risk as at balance date.

Liquidity risk

The project manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Foreign currency risk

The project is exposed to fluctuations in foreign currencies in relation to its valuation of biological assets and specifically the company owned sandalwood plantations.

Credit risk

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract. The Project's only credit risk exposure relates to debtors who comprise the receivable balance at 30 June 2012. A provision for impairment is recognised when collection of the full nominal amount is uncertain.

Agricultural risk

The project is exposed to agricultural risks in relation to the establishment and maintenance of its sandalwood plantations. These risks are managed by ensuring appropriate qualified staff (including foresters and agronomists etc) are employed to undertake and monitor the agricultural activities. Those activities are underpinned by manuals that have been developed to mitigate many of the risks attributable to the plantations.

Price risk

The project is exposed to commodity price risk in relation to its valuation of biological assets and specifically the Project owned sandalwood plantations.

(b) Financial instruments

(i) As at 30 June 2012 the project had not entered into any derivative financial instruments, foreign exchange contracts, interest rate swaps or similar contracts.

(ii) Net fair values

The Project's financial assets and liabilities included in the Statement of Financial Position are carried at their net fair value. Refer to Note 1 for the methods and assumptions adopted in determining net fair values for Sandalwood trees.

(c) Sensitivity Analysis – Foreign currency risk, Price risk, Heartwood oil yield

The entity has performed a sensitivity analysis relating to its exposure to foreign currency risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change to these risks.

Foreign currency risk sensitivity analysis

At 30 June 2012, the effect on profit and equity as a result of changes in the after tax value of the Australian dollar to the US Dollar, with all other variables remaining constant would be as follows:

	2012	2011
	\$	\$
Change in profit		
- improvement in AUD to USD by 5%	(189,930)	(157,239)
- decline in AUD to USD by 5%	189,930	157,239
Change in equity		
- improvement in AUD to USD by 5%	(189,930)	(157,239)
- decline in AUD to USD by 5%	189,930	157,239

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR TO 30 JUNE 2012 (CONTINUED)

Price risk sensitivity analysis

At 30 June 2012, the effect on profit and equity as a result of changes in the after tax price risk, with all other variables remaining constant would be as follows:

	2012	2011
	\$	\$
Change in profit		
- increase in sandalwood oil price by \$100/kg	155,626	134,106
- decrease in sandalwood oil price by \$100/kg	(155,626)	(134,106)
Change in equity		
- increase in sandalwood oil price by \$100/kg	155,626	134,106
- decrease in sandalwood oil price by \$100/kg	(155,626)	(134,106)

Heartwood oil yield sensitivity analysis

At 30 June 2012, the effect on profit and equity as a result of changes in the after tax heartwood yield risk, with all other variables remaining constant would be as follows:

	2012	2011
	\$	\$
Change in profit		
- increase in heartwood oil yield by 10%	379,861	314,478
- decrease in heartwood oil yield by 10%	(379,861)	(314,478)
Change in equity		
- increase in heartwood oil yield by 10%	379,861	314,478
- decrease in heartwood oil yield by 10%	(379,861)	(314,478)

14. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets and liabilities during the period ended 30 June 2012.

15. PROJECT DETAILS

The registered office of the project is:

169 Broadway
Nedlands WA 6009

The principal places of project are

Head Office
169 Broadway
Nedlands WA 6009

Plantation
King Location 385, Packsaddle Road
Kununurra WA 6743

DIRECTORS' DECLARATION FOR THE YEAR TO 30 JUNE 2012

In accordance with a resolution of the Directors of Tropical Forestry Services Ltd, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the Project are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the scheme's financial position as at 30 June 2012 and its performance, as represented by the results of its operations and its cash flows for the period ended on that date; and
 - (ii) complying the Accounting Standards and the Corporations Regulations; and
 - (iii) the financial statements are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board
- (b) there are reasonable grounds to believe that the scheme will be able to pay its debts as and when they become due and payable.

On behalf of the Board
Tropical Forestry Services Ltd



RICHARD ALSTON
Chairman

Dated: this 2nd day of October 2012

To The Board of Directors

**Auditor's Independence Declaration under Section 307C of the
Corporations Act 2001**

As lead audit director for the audit of the financial statements of TFS Gold Card Sandalwood Project 2003 for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully



BENTLEYS
Chartered Accountants



PHILIP RIX FCA
Director

DATED at PERTH this 2nd day of October 2012