

TFS SANDALWOOD PROJECT 2008
A.R.S.N: 128 710 261

ANNUAL REPORT
FOR THE YEAR ENDED 30 June 2014

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RESPONSIBLE ENTITY'S REPORT

The directors of TFS Properties Ltd (ACN 093 330 977), responsible entity for TFS Sandalwood Project 2008 ("the project"), present their report together with the financial statements of the project for the period ended 30 June 2014.

Directors

The names of the directors of TFS Properties Ltd during the period and at the date of this report are:

Mr Patrick O'Connor (Chairman) (Appointed 17 September 2013)

Mr Frank Wilson (Chief Executive Officer)

Mr Ronald Eacott

Mr Adam Gilchrist (Resigned 8 May 2014)

Mr Julius Matthys

Mr Stephen Atkinson (Resigned 1 September 2014)

Mr John Groppoli (Appointed 10 October 2014)

Mr Dalton Gooding (Appointed 16 October 2014)

Principal Activities

During the period the principal activity of the project was the establishment and management of a sandalwood plantation.

Change of State of Affairs

There was no significant change in the state of affairs of the project during the year.

Results of Operations, Financial Position and Likely Developments

The project made a loss for the year ended 30 June 2014 of \$24,519,198 (2013: \$10,412,060).

This is due to the revaluation of the sandalwood trees during the year ended 30 June 2014. This revaluation was impacted by the following:

- A fair value gain due to a shorter period to harvest;
- Reduction of 3.7kg in the expected heartwood per tree negatively impacting the valuation;
- Tree mortality of 2.71% negatively impacted the biological asset valuation; and
- Negative impact due to the movement in the AU dollar/US dollar exchange rate being less favourable compared to the corresponding period.

During the period the responsible entity completed a full inventory count and analysis of the project and has applied the results in this financial report. These included:

- Tree survival rate has reduced, currently 85.4% compared to 88.1% in 2013; and
- Reduction in the expected heartwood yield per tree from 15.7kg (2013) to 12.0kg (at 25% moisture content) at 14 years of age.

The plantation is now 5 years old and has been put onto the responsible entity's heartwood yield curve model developed during 2013. This model allows the responsible entity to more accurately predict the expected heartwood per tree for trees 5 years and older. All the current measurements point towards a lower heartwood yield (12.0kg) per tree than assumed under the theoretical yield curve applied to the plantation in 2013.

All of the TFS 2008 lots were planted in the dry season of 2009.

In August 2014, the first sale of sandalwood which had been grown on a plantation operated by the responsible entity and owned by growers was completed. This wood was sold at public tender at which bids were received from 6 different bidders. The wood was acquired by Gulf Natural Supply Co an associate of the responsible entity for an average price of around \$100 per kg of heartwood. This sale price compares to the biological assets of the TFS Sandalwood Project 2008 which are valued at an average price of around \$98 per kg of heartwood when applying a similar moisture content (14%) as per the wood sold at public tender.

The valuation methodology and assumptions used to value the project's biological assets are set out in detail in Note 5 on pages 15 and 16.

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 2014 was A\$2,653 per kg (2013: A\$2,735).

RESPONSIBLE ENTITY'S REPORT (CONTINUED)

Project Property

At 30 June 2014 there were 4,491 units (1/6th ha) held by investors in the project. In addition to this, the responsible entity or its associates held 536 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 there were 247 units transferred from investors to the responsible entity or its associate. Of the 247 units transferred; 91 units were due to investors selling their units to an associate of the responsible entity, while the remaining units (156) were foreclosed on by the responsible entity or its associate due to investors defaulting on either their Arwon loans or lease and management fee payments.

The net assets of the project at 30 June 2014 were \$98.45m. 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 \$2,337,467 were received from investors and paid to the responsible entity or its associates.

Expert Forester's Report

The following is an extract from a report prepared by our independent expert forester, Mr Ray Fremlin:

This report reviews the status of the plantation managed under this project by TFS, and discusses the maintenance operations carried out by the company over the past year. This project was planted in 2009 except for Voyager 9 which was planted in 2008. Thus, most trees are aged 5 years with Voyager 9 aged 6 years.

The project plantation is located on the Ivanhoe Plain, north of the Kununurra town site and is divided between five properties which are as follows.

King Location 574, known as Airport Farm is divided into 8 stands. These are numbered 21A, 21B, 21C, 21D, 31A, 31B, 31C, 31D. Total area is 272.55 ha.

King Location 235, designated Waringarri Farm, stands 1 to 3 inclusive. Total area 148.53 ha

King Locations 231 and 246, designated Mock Farm, divided into 6 stands. These are 23-1, 23-2, 24-1, 25-1, 25-2 (North and South) and 25-3. These stands comprise a total of 144.70 ha.

King Location 234, designated Chapman Farm, stands 1 to 9 inclusive. These stands total 136.86 ha.

King Location 240, designated Voyager Farm, stands 11 and 9, totalling 45.84 ha.

Total area is 748.48 ha.

Most plantations under this project are, for the most part, on good soils and the growth of the sandalwood is average or above average.

The *Cathormion umbellatum* planted in the Airport plantation is generally poor. This is primarily due to early weed pressure and shading. However, the *Cassia siamea* and *Dalbergia latifolia* are healthy and are carrying the sandalwood. Since the *Cassia siamea* were hedged, the *Cathormion umbellatum* has improved in vigour. Stand 31A, 31B & 31C have *Cassia siamea* and *Cathormion umbellatum* without *Dalbergia latifolia*. A large number of *Cassia siamea* have died on the western edge of stand 31D after hedging in 2013. It has not been determined if this is due solely to the hedging or there was a fungal infection associated with the hedging. The sandalwood trees in the Airport plantation are generally vigorous.

Waringarri plantation was established with three long-term hosts: *Cassia siamea*, *Dalbergia latifolia* and *Cathormion umbellatum*. The *Cathormion umbellatum* in the NW part of the plantation is poor, whilst flooding during the 2014 wet season impacted on sandalwood trees in an area in the NW of the plantation. Some deaths occurred, however most trees have recovered.

The stands in Mock plantation are generally in good condition although the *Dalbergia latifolia* is poorly stocked in stand 23.1. The *Cathormion umbellatum* in stand 25.2 south has improved in vigour after being poor.

Chapman plantation is generally in good condition although there are poor areas in stand 9.

An inventory in August 2014 shows that sandalwood stocking on average where close to expectations. Mortality of sandalwood can be attributed to prolonged inundation following heavy rainfall in February 2014.

RESPONSIBLE ENTITY'S REPORT (CONTINUED)

Maintenance of the Airport plantations was directed to controlling weeds. A blanket spray of knockdown herbicides was applied to all stands on three or four occasions during the year. The *Cassia siamea* was sided and topped or just sided depending on its status. This was to increase light penetration to the stand to improve the health of sandalwood and *Cathormion umbellatum*. Stands 31C and 31D were not sided or topped. Three aerial applications of Agrifos were applied to all stands during February and March 2014. This was to prevent fungal infections that could occur after a period of heavy rainfall.

Waringarri Farm is very similar to Airport Farm. Excellent soils leading to vigorous growth of the plantation, particularly the sandalwood trees. The *cassia siamea* had been sided and topped in June 2013. This improved light penetration to the sandalwood and *Cathormion umbellatum* resulting in improved vigour of these species. Maintenance was very similar to the Airport stands.

The stands situated on the Mock and Chapman Farms received a similar range of treatments to Airport and Waringarri, although Mock plantation received an extra blanket spray of knockdown herbicide. Mock plantation is amongst the best performing plantations. Hand removal of vines was necessary in all the stands that make up Chapman plantation.

Stands at Voyager Farm are for the most part performing very well. The sandalwood was sided to maintain access in stand 9 and 11, whilst in stand 11 the *Sesbania formosa* was topped with the aim of killing the trees to allow the penetration of more light. All other maintenance and treatments was very similar to other stands that make up this project.

All stands were irrigated regularly throughout the dry season to maintain optimum growth rates. All farms except Chapman's were irrigated by furrows. Chapman's is entirely under trickle irrigation to accommodate variations in soil type and slopes.

Plantation infrastructures were maintained through the dry season when all parts of the plantation are accessible to vehicles. Water supply channels were delved to maintain good flows of irrigation water. The drains for removal of excess water, both from irrigation and from rainfall in the wet season were cleaned out to remove silt build-up, and access tracks were maintained in trafficable condition.

In summary, these are all good plantations and are being professionally managed.

Environmental Management

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

The directors of the responsible entity 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 does not affect the project for the current or subsequent financial year. The directors 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 2014 has been received and can be found on page 23 of the financial report.

For and on behalf of the directors of TFS Properties Ltd:



Patrick O'Connor - Chairman

Dated at Perth this 28th day of October 2014

Independent Auditor's Report

To the Members of TFS Sandalwood Project 2008

We have audited the accompanying financial report of TFS Sandalwood Project 2008 ("the registered scheme"), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in Growers' Fund and statement of cash flows 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 registered 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 Sandalwood Project 2008 *(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 Sandalwood Project 2008 is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the registered scheme's financial position as at 30 June 2014 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

MARK DELAURENTIS CA
Director

Dated at Perth this 28th day of October 2014

**TFS SANDALWOOD PROJECT 2008
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014**

	NOTE	2014 \$	2013 \$
REVENUE			
Lease & management fees	9(c)	2,337,467	2,286,531
Net (decrement) / increment in net value of biological assets	5	(24,519,198)	10,412,060
		<u>(22,181,731)</u>	<u>12,698,591</u>
EXPENSES			
Audit fees	11	4,690	4,630
Doubtful / Bad debts (recovery) / expense	3	(124,717)	51,829
Compliance committee remuneration	10	6,265	6,153
Filing fees		2,047	1,086
Management fees	9(c)	1,947,889	1,905,443
Lease fees	9(c)	389,578	381,088
Reimbursement of expenses by the responsible entity		111,715	(63,698)
		<u>2,337,467</u>	<u>2,286,531</u>
(LOSS) / PROFIT BEFORE INCOME TAX		<u>(24,519,198)</u>	<u>10,412,060</u>
Income tax		-	-
(LOSS) / PROFIT FROM CONTINUING OPERATIONS		<u>(24,519,198)</u>	<u>10,412,060</u>
(LOSS) / PROFIT FOR THE PERIOD		<u>(24,519,198)</u>	<u>10,412,060</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income for the period		-	-
TOTAL COMPREHENSIVE INCOME		<u>(24,519,198)</u>	<u>10,412,060</u>

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

**TFS SANDALWOOD PROJECT 2008
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

	NOTE	2014 \$	2013 \$
CURRENT ASSETS			
Cash and cash equivalents	2	-	-
Trade and other receivables	3	69,832	78,824
TOTAL CURRENT ASSETS		69,832	78,824
NON CURRENT ASSETS			
Biological assets	5	98,450,502	129,732,957
TOTAL NON-CURRENT ASSETS		98,450,502	129,732,957
TOTAL ASSETS		98,520,334	129,811,781
CURRENT LIABILITIES			
Trade and other payables	6	69,832	78,824
TOTAL CURRENT LIABILITIES		69,832	78,824
NON CURRENT LIABILITIES			
Unearned Income	7	-	-
TOTAL NON-CURRENT LIABILITIES		-	-
TOTAL LIABILITIES		69,832	78,824
NET ASSETS		98,450,502	129,732,957
GROWERS' FUNDS			
Undistributed income reserve		98,450,502	129,732,957
EQUITY		98,450,502	129,732,957

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

**TFS SANDALWOOD PROJECT 2008
STATEMENT OF CHANGES IN GROWERS' FUNDS
FOR THE YEAR ENDED 30 JUNE 2014**

	NOTE	Undistributed Income \$	Total \$
Balance at 01.07.12		119,320,897	119,320,897
Total comprehensive income for period		10,412,060	10,412,060
Sub-Total		129,732,957	129,732,957
Balance at 30.06.13		129,732,957	129,732,957
 Balance at 01.07.13		 129,732,957	 129,732,957
Total comprehensive income for period		(24,519,198)	(24,519,198)
Trees surrendered by growers upon departure from the project		(6,763,257)	(6,763,257)
Sub-Total		98,450,502	98,450,502
Balance at 30.06.14		98,450,502	98,450,502

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

**TFS SANDALWOOD PROJECT 2008
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014**

	NOTE	2014 \$	2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from growers		-	-
Payments to suppliers		-	-
	8(b)	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for establishment of plantations		-	-
		<u>-</u>	<u>-</u>
CASH FLOWS FROM 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>

All cash transactions are processed and managed by TFS Properties Ltd ("responsible entity") and no cash payments are made and received within the project.

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 ENDED 30 JUNE 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the TFS Sandalwood Project 2008. The TFS Sandalwood Project 2008 is a Managed Investment Project registered in Australia.

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 ("AASB") 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 responsible entity's director's assessment of their fair value at each reporting date. The fair 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 fair value of the sandalwood trees are recognised as revenues or expenses in the Statement of Profit or Loss and Other Comprehensive Income, determined as the difference between the total fair values of the trees recognised as at the beginning of the period and the total fair values of the trees recognised as at the reporting date.

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 fair values.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value except for harvested trees which are measured at fair value less estimated cost to sell at the point of harvest, and subsequently at the lower of this or its Net Realisable Value under AASB 102 Inventories.

(d) Income Tax

Under current legislation, the project 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

(e) 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.

(f) Trade and other Receivables

Trade and other receivables are recognised and carried at original invoice amount, or the amount due less a provision for any uncollectable 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 deemed uncollectable after the value of trees as security has been taken into account. Bad debts are written off as incurred.

(g) 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 an 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.

(h) 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.

(i) 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.

(j) 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 Profit or Loss and Other Comprehensive Income.

(k) 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 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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.

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 profit or loss.

(I) 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 responsible entity 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 project.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

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 responsible entity make an estimate as to the fair value of the standing sandalwood trees held by the project. The carrying value of the sandalwood trees at year end is shown in Note 5. The fair value is calculated as the net present value of expected future cash flows. The estimates used in calculating the expected future cash flows include key assumptions on yields of heartwood, oil content and number of trees, as well as assumptions as to the future price of sandalwood oil. The directors of the responsible entity also include assumptions on the expected future harvesting and processing (oil extraction) costs. All estimates are based on the best information currently available and where there is any doubt the entity uses the more conservative estimates.

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 entity's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

(m) Fair value measurement

A number of the entity's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The directors of the responsible entity have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The directors of the responsible entity regularly review significant unobservable inputs and valuation adjustments. If third party information, such as valuation reports is used to measure fair values, then the directors of the responsible entity assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of AASB 13: Fair Value Measurement, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the board of directors of the responsible entity.

When measuring the fair value of an asset or a liability, the entity uses market observable data as far as possible. Fair values of assets or liabilities are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The entity recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 5: Biological assets.

The directors of the responsible entity assess that cash and short-term deposits, trade receivables, other current financial assets, trade payables and other current liabilities carrying amounts approximate their fair values largely due to the short-term maturities of these instruments.

Long term receivables, other non-current financial assets and financial liabilities are evaluated by the directors of the responsible entity based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, as at 30 June 2014, the carrying amounts of such receivables, other non-current financial assets and financial liabilities, were deemed to not be materially different from their calculated fair values.

New Accounting Standards for Application in Future Periods

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014, and have not been applied in preparing these financial statements. Those which may be relevant to the entity are set out below. The entity does not plan to adopt these standards early.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2017	30 June 2018
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 135– Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015

The financial report was authorised for issue on 28 October 2014 by the board of directors of the responsible entity.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)**

	2014 \$	2013 \$
2. CASH AND CASH EQUIVALENTS		
Cash at bank	-	-
3. TRADE AND OTHER RECEIVABLES		
Outstanding fees	120,742	254,451
Provision for Impairment of outstanding fees	(50,910)	(175,627)
	<u>69,832</u>	<u>78,824</u>
4. OTHER ASSETS		
Current		
Prepayments (i)	-	-
Non Current		
Prepayments (i)	-	-
 (i) prepayments represent establishment fees paid to the manager in advance of the period in which the establishment services are to be provided.		
5. BIOLOGICAL ASSETS		
Sandalwood plantations - Opening balance	129,732,957	119,320,897
Trees surrendered by growers upon departure from the project	(6,763,257)	-
Fair value adjustment	(24,519,198)	10,412,060
Total biological assets	<u>98,450,502</u>	<u>129,732,957</u>
(a) Physical quantity of sandalwood trees planted and owned		
Number of sandalwood trees	325,457	356,163
Area under lease (Ha) (planted)	748.5	789.7
Growers in project (units)	4,491	4,738

(b) Nature of Asset

Investors in the TFS Sandalwood Project 2008 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 will be situated on various locations within the Ord River Irrigation Area which are located within 15 kilometres from the Western Australian township of Kununurra.

The land upon which the sandalwood plantation is located is owned or leased 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 2023.

The net market value of the sandalwood trees have been determined in accordance with a directors' valuation in accordance with the AASB's to reflect the market value of the plantation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

5. BIOLOGICAL ASSETS – CON'T

(c) Measurement of fair values

(i) *Fair value hierarchy*

The fair value measurements for biological assets of \$98.45m (2013: \$129.73m) have been categorised as Level 3 fair values based on the inputs to the valuation techniques used (refer to Note 1(m)).

(ii) *Level 3 fair values*

The following information shows the valuation techniques used in measuring fair values, as well as the significant observable and unobservable inputs used.

Valuation technique

Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates until harvest. The expected net cash flows are discounted using a risk-adjusted discount rate.

Significant observable inputs

- (i) The price of sandalwood oil is determined by market prices, being \$2,500 USD/kg (2013: \$2,500 USD/kg) and not inflated.
- (ii) US Dollar exchange rate used is constant through the valuation model at 1.061 AUD (2013: 1.094 AUD).

Significant unobservable inputs

- (i) The trees will be harvested within 14 years of being planted.
- (ii) Forecast of heartwood production at weighted average of 12.0kg (2013: 15.7kg) per sandalwood tree at a 25% moisture content.
- (iii) Projected oil content from the heartwood of 3.7% (2013: 3.7%) from forecast heartwood at a moisture content of 25%.
- (iv) The costs consist of harvesting, processing and marketing and sales cost.
 - Harvesting and processing (oil extraction) costs, estimated at \$16,000 (2013: \$16,000) per hectare and \$207 (2013: \$207) per litre of oil; and
 - Marketing and sales costs, estimated at 5% of proceeds.
 - Harvesting and processing (oil extraction cost) are held constant in real terms with an annual inflation rate of 3.0% (2013: 3.0%).
- (v) The pre-tax average real rate at which the net cash flows have been discounted by:
 - 14% (2013: 14%) for trees aged 0 to 5 years.
- (vi) Cash flows exclude income taxes.

(d) Financial Risk

The entity is exposed to the following risks relating to its sandalwood plantations.

(i) *Supply and demand risk*

The entity is exposed to risks arising from fluctuations in the price and sales volume of sandalwood. When possible, the entity intends to manage this risk by aligning its harvest volume to market demand. Management of the responsible entity performs regular industry trend analysis for projected harvest volumes and pricing.

(ii) *Climate and other risks*

The entity's sandalwood plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The management of the responsible entity has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The management of the responsible entity also source insurance for the growers to insure against certain natural disasters such as fire and wind damage. The insured value of the plantation under the existing insurance policy is less than the fair value of these plantations, but greater than the cost of re-establishing the plantation. The insurance is not compulsory (except where the grower has an Arwon loan) and is entirely up to the discretion of each individual grower.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)**

	2014	2013
	\$	\$
6. TRADE AND OTHER PAYABLES		
Trust funds payable to responsible entity (i)	69,832	78,824
	<u>69,832</u>	<u>78,824</u>
 (i) Trust funds payable to responsible entity represent the sum of monies payable by growers to the responsible entity 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	<u>-</u>	<u>-</u>
Non Current		
Prepaid lease & management fees	<u>-</u>	<u>-</u>
Represents lease and management fees received in advance of services provided.		
8. CASH FLOW INFORMATION		
(a) Reconciliation of cash		
Cash balance comprises:		
Cash at bank	<u>-</u>	<u>-</u>
(b) Reconciliation of net operating income to net cash flows from operating activities		
Net operating income	(24,519,198)	10,412,060
Adjustments:		
(Increase) / decrease in net receivables	8,992	3,552
(Increase) / decrease in market value of sandalwood trees	24,519,198	(10,412,060)
Increase / (decrease) in payables	(8,992)	(3,552)
Net cash inflow / (outflow) from operating activities.	<u>-</u>	<u>-</u>

9. RELATED PARTY DISCLOSURE

(a) Responsible Entity

The responsible entity of the TFS Sandalwood Project 2008 is TFS Properties Ltd, whose immediate and ultimate holding company is TFS Corporation Limited.

(b) Directors and Key management

The directors and key management of the responsible entity during the period were:

Patrick O'CONNOR (Chairman) (Appointed 17 September 2013)
 Frank WILSON (Chief Executive Officer)
 Ronald EACOTT
 Adam GILCHRIST (Resigned 8 May 2014)
 Julius MATTHYS
 Stephen ATKINSON (Resigned 1 September 2014)
 Alistair STEVENS – Chief Financial Officer and Chief Operating Officer (Appointed 21 January 2014)
 Paulo CORREA – Operations General Manager (Resigned 1 September 2014)
 Brett BLUNDEN – General Manager Forestry (Appointed 2 September 2014)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

9. RELATED PARTY DISCLOSURE – CONT

(c) Fees paid or payable to the Responsible Entity

The responsible entity receives all Establishment, Lease and Management Fees which have been paid by the project during the period.

The responsible entity provides sandalwood plantation establishment and management services for TFS Sandalwood Project 2008 and carries out the custodial and administrative functions.

Transactions between TFS Sandalwood Project 2008 and TFS Properties Ltd result from normal dealings with that company as the project's responsible entity and holder of a dealer's license.

(d) Holdings of Directors and Director Related Entities

A total of nil lease interests are held by directors or parties related to directors on the same terms and conditions as other Growers. No amounts are outstanding at year end.

(e) Key management compensation

No compensation has been paid by the project directly, or its responsible entity to key management personnel

10. COMPLIANCE MATTERS

(a) Compliance Committee

The Compliance Committee during the period consisted of:

Ron Eacott (Chairman) – Director TFS Properties Ltd
Robert Marusco – NKH Capital
John O'Brien – Optima Partners

The Compliance Officer during the year was Doug Verley of NKH Capital.

(b) Remuneration of Compliance Committee

\$6,265 (2013: \$6,153) (GST exclusive) was paid to the external members of the Compliance Committee by the responsible entity for provision of their services during the period ended 30 June 2014.

11. 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 \$4,690 (2013: \$4,630).

12. 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

12. OPERATING SEGMENTS – CON'T

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.

13. SUBSEQUENT EVENTS

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.

14. FINANCIAL RISK MANAGEMENT

(a) Financial risk management

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

(i) Treasury risk management

The chief executive officer and chief financial officer of the responsible entity 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.

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.

Credit risk

Credit risk represents the risk that a counter party 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 2014. A provision for impairment is recognised when collection of the full nominal amount is uncertain.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

14. FINANCIAL RISK MANAGEMENT – CON'T

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 2014 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, Discount rate risk

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 2014, 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:

	2014	2013
	\$	\$
Change in profit		
- improvement in AUD to USD by 5%	(3,920,111)	(5,086,180)
- decline in AUD to USD by 5%	3,920,111	5,086,180
Change in equity		
- improvement in AUD to USD by 5%	(3,920,111)	(5,086,180)
- decline in AUD to USD by 5%	3,920,111	5,086,180

Price risk sensitivity analysis

At 30 June 2014, 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:

	2014	2013
	\$	\$
Change in profit		
- increase in sandalwood oil price by \$100/kg	2,955,369	3,718,986
- decrease in sandalwood oil price by \$100/kg	(2,955,369)	(3,718,986)
Change in equity		
- increase in sandalwood oil price by \$100/kg	2,955,369	3,718,986
- decrease in sandalwood oil price by \$100/kg	(2,955,369)	(3,718,986)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (CONTINUED)

14. FINANCIAL RISK MANAGEMENT – CON'T

Heartwood oil yield sensitivity analysis

At 30 June 2014, 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:

	2014	2013
	\$	\$
Change in profit		
- increase in heartwood oil yield by 10%	7,228,460	9,402,530
- decrease in heartwood oil yield by 10%	(7,228,460)	(9,402,530)
Change in equity		
- increase in heartwood oil yield by 10%	7,228,460	9,402,530
- decrease in heartwood oil yield by 10%	(7,228,460)	(9,402,530)

Discount rate risk analysis

At 30 June 2014, the effect on profit and equity as a result of changes in the after tax discount rate risk, with all other variables remaining constant would be as follows:

	2014	2013
	\$	\$
Change in profit		
- increase in discount rate by 2%	(9,974,262)	(14,474,741)
- decrease in discount rate by 2%	11,885,637	17,552,275
Change in equity		
- increase in discount rate by 2%	(9,974,262)	(14,474,741)
- decrease in discount rate by 2%	11,885,637	17,552,275

15. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets and liabilities during the period ended 30 June 2014.

16. 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
Lot 794, Weaber Plains Road
Kununurra WA 6743

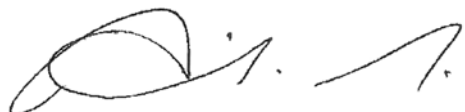
DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2014

In accordance with a resolution of the directors of TFS Properties Ltd, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the registered project are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the registered project's financial position as at 30 June 2014 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 registered project will be able to pay its debts as and when they become due and payable.

On behalf of the board
TFS Properties Ltd



Patrick O'Connor - Chairman
Dated at Perth this 28th day of October 2014

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 Sandalwood Project 2008 for the financial year ended 30 June 2014, 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



MARK DELAURENTIS CA
Director

Dated at Perth this 28th day of October 2014