



## **T.F.S. SANDALWOOD PROJECT 2011**

**A.R.S.N: 150 211 171**

### **ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013**

In 2017 TFS Corporation was re-named to Quintis Limited. Existing TFS Sandalwood projects up until 2016 will continue to be named 'TFS Sandalwood Project'. New Sandalwood projects from 2017 onwards will be named 'Quintis Sandalwood Album Project'.

As part of the name change to Quintis Limited, TFS Properties Ltd was re-named to Sandalwood Properties Ltd. Sandalwood Properties Ltd remains the responsible entity for all TFS Sandalwood Projects and future Quintis Sandalwood Album Projects.



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

TFS SANDALWOOD PROJECT 2011  
A.R.S.N: 150 211 171

ANNUAL REPORT  
FOR THE YEAR ENDED 30 June 2013

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## RESPONSIBLE ENTITY'S REPORT

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The Directors of TFS Properties Ltd (ACN 093 330 977), Responsible Entity for TFS Sandalwood Project 2011 ("the Project"), present their report together with the financial statements of the Project for the period ended 30 June 2013.

### 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 16 September 2013)

Mr Richard Alston (Chairman) (Resigned 3 October 2012)

Mr Frank Wilson

Mr Ronald Eacott

Mr Adam Gilchrist

Mr Ian Thompson (Resigned 12 July 2012)

Mr Timothy Croot (Resigned 12 July 2012)

Mr Julius Matthys

Mr Stephen Atkinson (Appointed 12 July 2012)

### 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 profit for the year ended 30 June 2013 of \$3,743,641 (2012: \$1,190,164). The net assets of the project have increased by \$3.75m to \$10.21m (2012: \$6.46m).

This is due to a revaluation of the sandalwood trees during the 12 month period. During the period the Responsible Entity (RE) was able to develop and test a model based on measurements of a standing tree (five years and older) that is able to more accurately predict the expected heartwood per tree. The RE then undertook an extensive inventory analysis of its plantations under management based on this model, and arrived at a more accurate and conservative estimate of average heartwood per tree to be applied in the RE's predictive model once the trees have reach and age of five years and older.

The current age of the plantation is one year and as such the model as mentioned above cannot yet be applied to more accurately determine the expected heartwood at harvest. As a result the RE has decided to apply a more conservative expected average heartwood yield per sandalwood tree (15.7kg at 25% moisture content) compared to what was previously predicted (22.9kg at 25% moisture content) at harvest date (year 14 after establishment). This conservatism is based on experience and information gained over the last 12 months. The RE also expects that if the harvest date is extended the yield of heartwood would be expected to improve and the RE may in the future evaluate this as an option that may benefit growers.

The entire plantation was subject to a full tree count during the period which confirmed the present tree numbers as reflected in the report.

The RE also reviewed the discount rates used in the predictive model and decided to reduce the discount rates after taking the following into consideration:

- (i) Reduced risk due to the RE being able to more accurately estimate heartwood yield per tree.
- (ii) Reduction in the risk free rate (10 year government bond rate) over the last couple of years.
- (iii) The current weighted average cost of capital (WACC) for the TFS Group (of which the RE is a subsidiary) and the reduction thereof over the last couple of years.

All of the TFS 2011 lots were planted in the dry season of 2012.

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 2013 was A\$2,735 per kg (2012: A\$2,441).

## RESPONSIBLE ENTITY'S REPORT (CONTINUE)

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### Scheme Property

At 30 June 2013 there were 530 units (1/6<sup>th</sup> ha) held by investors in the project. In addition to this, the responsible entity or its associates held 130 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 2013 were \$10.21m. This primarily consists of the capitalisation of the establishment fee receipts recognised to date.

During the year fees of \$214,215 were received from investors and paid to the responsible entity or its associates.

### Expert Forester's Report

An extract from a report on Plantation by our independent expert forester, Mr Ray Fremlin follows:

This report reviews the status of the plantation managed by TFS under this project, and discusses the establishment and early maintenance carried out by the company.

TFS 2011 is situated on the Ivanhoe Plain, north of Kununurra townsite. The property, known as Kimpton Farm is King Location 241 and the project is divided into three compartments numbered 52A, 52B and 52C and covers a total area of 88.35 hectares.

Infilling of hosts and sandalwood was completed during the period. However, the primary emphasis was to manage weeds and insect pests. Weed control involved no less than 18 different activities over the period and included hand weeding, spot spraying and shrouded sprays to the interrow area.

Pruning to maintain the form of *Sesbania formosa* and *Cassia siamea* was completed across all three compartments.

Both compartments received three insecticide applications; one to control aphids on the *Cassia siamea* and the second to control white fly on the *Cathormion umbellatum* while the third was to control caterpillars on the *Cassia siamea*.

The soil on Kimpton Farm is Cununurra Clay, a type favoured for sandalwood plantations. In summary the trees in this project are healthy and well 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 recently enacted 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 2013 has been received and can be found on page 20 of the financial report.

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



**Frank Wilson - Director**  
Perth, 5 December 2013

## Independent Auditor's Report

### To the Members of TFS Sandalwood Project 2011

We have audited the accompanying financial report of TFS Sandalwood Project 2011 ("the registered scheme"), which comprises the statement of financial position as at 30 June 2013, 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 2011 *(Continued)*

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### **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 2011 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 2013 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.

A handwritten signature in blue ink that reads 'Bentleys'.

**BENTLEYS**  
**Chartered Accountants**

A handwritten signature in blue ink that reads 'Mark Delaurentis'.

**MARK DELAURENTIS CA**  
**Director**

DATED at PERTH this 5<sup>th</sup> day of December 2013

**TFS SANDALWOOD PROJECT 2011**
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD TO  
30 JUNE 2013**

	2013 \$	2012 \$
<b>REVENUE</b>		
Establishment fees	-	1,852,136
<b>Lease &amp; Management Fees</b>	214,215	-
Net increment / (decrement) in net value of biological assets	3,743,641	(661,972)
	<u>3,957,856</u>	<u>1,190,164</u>
<b>EXPENSES</b>		
Audit fees	4,630	4,630
Compliance committee remuneration	6,153	5,429
Filing fees	1,246	1,029
Management fees	164,628	-
Lease fees	49,587	-
Reimbursement of expenses by the responsible entity	(12,029)	(11,088)
	<u>214,215</u>	<u>-</u>
<b>PROFIT BEFORE INCOME TAX</b>	<u>3,743,641</u>	<u>1,190,164</u>
Income tax	-	-
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<u>3,743,641</u>	<u>1,190,164</u>
<b>PROFIT FOR THE PERIOD</b>	<u>3,743,641</u>	<u>1,190,164</u>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income for the period	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>3,743,641</u>	<u>1,190,164</u>

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



**TFS SANDALWOOD PROJECT 2011  
STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2013**

	NOTE	2013 \$	2012 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2	-	-
Trade and other receivables	3	5,022	-
Other	4	-	-
<b>TOTAL CURRENT ASSETS</b>		<u>5,022</u>	<u>-</u>
<b>NON CURRENT ASSETS</b>			
Biological assets	5	10,205,269	6,461,628
Other	4	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<u>10,205,269</u>	<u>6,461,628</u>
<b>TOTAL ASSETS</b>		<u>10,210,291</u>	<u>6,461,628</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	6	5,022	-
Unearned Income	7	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<u>5,022</u>	<u>-</u>
<b>NON CURRENT LIABILITIES</b>			
Unearned Income	7	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>5,022</u>	<u>-</u>
<b>NET ASSETS</b>		<u>10,205,269</u>	<u>6,461,628</u>
<b>GROWERS' FUNDS</b>			
Undistributed income reserve		10,205,269	6,461,628
<b>EQUITY</b>		<u>10,205,269</u>	<u>6,461,628</u>

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

**TFS SANDALWOOD PROJECT 2011  
STATEMENT OF CHANGES IN GROWERS' FUNDS  
FOR THE PERIOD TO 30 JUNE 2013**

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	<b>Undistributed Income \$</b>	<b>Total \$</b>
<b>Balance at 01.07.11</b>	5,271,464	5,271,464
Profit for period	1,190,164	1,190,164
Sub-Total	6,461,628	6,461,628
<b>Balance at 30.06.12</b>	6,461,628	6,461,628
<b>Balance at 01.07.12</b>	6,461,628	6,461,628
Profit for period	3,743,641	3,743,641
Sub-Total	10,205,269	10,205,269
<b>Balance at 30.06.13</b>	10,205,269	10,205,269

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

**TFS SANDALWOOD PROJECT 2011  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD TO 30 JUNE 2013**

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	NOTE	2013 \$	2012 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from growers		230,615	-
Payments to suppliers		(230,615)	(712,360)
	8(b)	<u>-</u>	<u>(712,360)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for establishment of plantations		-	(4,149,739)
		<u>-</u>	<u>(4,149,739)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Other		-	-
		<u>-</u>	<u>-</u>
Net increase / (decrease) in cash held		-	(4,862,099)
Cash at beginning of financial year		-	4,862,099
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 PERIOD TO 30 JUNE 2013

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the TFS Sandalwood Project 2011. The TFS Sandalwood Project 2011 is a Managed Investment Scheme 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 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:

- Timber Lot sales (Establishment Fees) are recognised as revenue in proportion to the establishment work performed at balance date. In arriving at the proportion of work performed to balance date, all activities relating to the product development, marketing, distribution, land procurement and development, seed collection and propagation and other establishment activities are taken into account.
- 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 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 Profit or Loss and Other 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.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD TO 30 JUNE 2013 (CONTINUED)**

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### **(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.

### **(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 Profit or Loss and Other 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 PERIOD TO 30 JUNE 2013 (CONTINUED)

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### 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.

### (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 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 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 responsible entity 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. In the first year of planting the trees are recorded at cost. In subsequent years, 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 key assumptions on yields of heartwood and oil content of the trees, as well as assumptions as to the future price of sandalwood oil.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD TO 30 JUNE 2013 (CONTINUED)

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 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 5 December 2013 by the board of directors of the responsible entity.

	2013 \$	2012 \$
<b>2. CASH AND CASH EQUIVALENTS</b>		
Cash at bank	-	-
<b>3. TRADE AND OTHER RECEIVABLES</b>		
Outstanding fees	5,022	-
Provision for Impairment of outstanding fees	-	-
	5,022	-
<b>4. OTHER ASSETS</b>		
<b>Current</b>		
Prepayments (i)	-	-
<b>Non Current</b>		
Prepayments (i)	-	-
(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.		
<b>5. BIOLOGICAL ASSETS</b>		
Sandalwood trees at net market value	10,205,269	6,461,628
	10,205,269	6,461,628
<b>(a) Physical quantity of sandalwood trees planted and owned</b>		
Number of sandalwood trees	41,658	33,456
Area under lease (Ha) (planted)	88.4	88.4
Area under lease (Ha) (to be planted)	0.0	0.0
Growers in project (units)	530	530



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD TO 30 JUNE 2013 (CONTINUED)

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### 5. BIOLOGICAL ASSETS – CON'T

#### (b) Nature of Asset

Investors in the TFS Sandalwood Project 2011 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 King Location 241 on the Ivanhoe Plain, north of Kununurra townsite. This location is within 30 kilometres from 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 2026.

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.

The sandalwood trees are subject to normal agriculture risks associated with forestry operations such as fire, pests and adverse weather conditions.

#### (c) Significant Assumptions

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

- (i) 100% of the trees will be harvested within 14 years of being planted.
- (ii) The price of sandalwood is constant and determined by market prices, being \$2,500 USD/kg (2012: \$2,500 USD).
- (iii) Forecast of heartwood production at weighted average of 15.7kg (2012: 22.9kg) per sandalwood tree at a 25% moisture content.
- (iv) Projected oil content of 3.7% (2012: 3.7%) from forecast heartwood at a moisture content of 25%.
- (v) The cost expected to arise on harvest are constant in real terms and consists of the following:
  - Harvesting and processing (oil extraction) costs, estimated at \$16,000 (2012: \$16,000) per hectare and \$207 (2012: \$170) per litre of oil; and
  - Marketing and sales costs, estimated at 5% of proceeds.
- (vi) The pre-tax average real rate at which the net cash flows have been discounted by:
  - 14% (2012: 17%) for trees aged 0 to 5 years.
- (vii) Cash flows exclude income taxes and are expressed in real terms.
- (viii) US Dollar exchange rate used 1.094 AUD (2012: 0.976 AUD).

During the period the Responsible Entity (RE) was able to develop and test a model based on measurements of a standing tree (five years and older) that is able to more accurately predict the expected heartwood per tree. The RE then undertook an extensive inventory analysis of its plantations under management based on this model, and arrived at a more accurate average heartwood per tree to be applied in the RE's predictive model once the trees have reach and age of five years and older.

The current age of the plantation is one year and as such the model as mentioned above cannot yet be applied to more accurately determine the expected heartwood at harvest. As a result the RE has decided to apply a more conservative expected average heartwood yield per sandalwood tree (15.7kg at 25% moisture content) compared to what was previously predicted (22.9kg at 25% moisture content) at harvest date (year 14 after establishment). This conservatism is based on experience and information gained over the last 12 months. The RE also expects that if the harvest date is extended the yield of heartwood will improve.

The RE also reviewed the discount rates used in the predictive model and decided to reduce the discount rates after taking the following into consideration:

- (i) Reduced risk due to the RE being able to more accurately estimate heartwood yield per tree.
- (ii) Reduction in the risk free rate (10 year government bond rate) over the last couple of years.
- (iii) The current weighted average cost of capital (WACC) for the TFS Group (of which the RE is a subsidiary) and the reduction thereof over the last couple of years.

Had the RE valued the trees using the same assumptions used in the prior year other than changes in the foreign exchange rate; then this would have resulted in the total carrying value being \$0.70m higher as well as an approximate increase in net profit after tax of \$0.70m.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD TO 30 JUNE 2013 (CONTINUED)

### 5. BIOLOGICAL ASSETS – CON'T

#### (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 13 years until harvested.

### 6. TRADE AND OTHER PAYABLES

Trust funds payable to responsible entity (i)  
GST payable

	2013 \$	2012 \$
	5,022	-
	-	-
	<u>5,022</u>	<u>-</u>

(i) Trust funds payable to responsible entity represents 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 establishment fees

	-	-
--	---	---

#### Non Current

Prepaid establishment fees

	-	-
--	---	---

Represents establishment fees received in advance of services provided.

### 8. CASH FLOW 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

3,743,641      1,190,164

Adjustments:

(Increase) / decrease in net receivables

(5,022)      -

(Increase) / decrease in market value of sandalwood trees

(3,743,641)      661,972

Increase / (decrease) in payables

5,022      (712,360)

Increase / (decrease) in unearned income

-      (1,852,136)

Net cash inflow / (outflow) from operating activities.

-      (712,360)

### 9. RELATED PARTY DISCLOSURE

#### (a) Responsible Entity

The Responsible Entity of the TFS Sandalwood Project 2011 is TFS Properties Ltd, whose immediate and ultimate holding company is TFS Corporation Limited.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD TO 30 JUNE 2013 (CONTINUED)**

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### **9. RELATED PARTY DISCLOSURE – CON'T**

#### **(b) Directors and Key management**

The Directors and key management of the Responsible Entity during the period were:

Frank WILSON  
Ronald EACOTT  
Adam GILCHRIST  
Julius MATTHYS  
Stephen ATKINSON (Appointed 12 July 2012)  
Richard ALSTON (Chairman) (Resigned 3 October 2012)  
Ian THOMPSON (Resigned 12 July 2012)  
Tim CROOT (Resigned 12 July 2012)  
Quentin MEGSON – Chief Financial Officer  
Paulo CORREA – Operations General Manager

#### **(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 2011 and carries out the custodial and administrative functions.

Transactions between TFS Sandalwood Project 2011 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**

There is no 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 scheme 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**

\$6,153 (2012: \$5,249) (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 2013.

### **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 \$4,630 (2012: \$4,630).

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD TO 30 JUNE 2013 (CONTINUED)

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### 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.

#### *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 deposits with banks.

##### (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 interest rate risk, liquidity risk, foreign currency risk, credit risk, and agricultural risk.

#### *Interest rate risk*

Interest rate risk is the risk that a financial investment's value will fluctuate as a result of changes in market interest rates. The Project's exposure to interest rate risk is as follows:

The Project had no other financial assets or financial liabilities with exposure to interest rate risk as at balance date.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD TO 30 JUNE 2013 (CONTINUED)

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### 14. FINANCIAL RISK MANAGEMENT – CON'T

#### *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 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 2013. 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 2013 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 2013, 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:

	2013	2012
	\$	\$
Change in profit		
- improvement in AUD to USD by 5%	(400,742)	(260,856)
- decline in AUD to USD by 5%	400,742	260,856
Change in equity		
- improvement in AUD to USD by 5%	(400,742)	(260,856)
- decline in AUD to USD by 5%	400,742	260,856

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD TO 30 JUNE 2013 (CONTINUED)

### 14. FINANCIAL RISK MANAGEMENT – CON'T

#### *Price risk sensitivity analysis*

At 30 June 2013, 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:

	2013 \$	2012 \$
Change in profit		
- increase in sandalwood oil price by \$100/kg	293,020	213,742
- decrease in sandalwood oil price by \$100/kg	(293,020)	(213,742)
Change in equity		
- increase in sandalwood oil price by \$100/kg	293,020	213,742
- decrease in sandalwood oil price by \$100/kg	(293,020)	(213,742)

#### *Heartwood oil yield sensitivity analysis*

At 30 June 2013, 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:

Change in profit		
- increase in heartwood oil yield by 10%	740,828	521,713
- decrease in heartwood oil yield by 10%	(740,828)	(521,713)
Change in equity		
- increase in heartwood oil yield by 10%	740,828	521,713
- decrease in heartwood oil yield by 10%	(740,828)	(521,713)

#### *Discount rate risk analysis*

At 30 June 2013, 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:

Change in profit		
- increase in discount rate by 2%	(1,445,499)	(946,769)
- decrease in discount rate by 2%	1,848,099	1,220,318
Change in equity		
- increase in discount rate by 2%	(1,445,499)	(946,769)
- decrease in discount rate by 2%	1,848,099	1,220,318

### 15. CONTINGENT ASSETS AND LIABILITIES

There are no contingent assets and liabilities during the period ended 30 June 2013.

### 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  
King Location 385, Packsaddle Road  
Kununurra WA 6743

## **DIRECTORS' DECLARATION FOR THE PERIOD TO 30 JUNE 2013**

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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 scheme's financial position as at 30 June 2013 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 scheme will be able to pay its debts as and when they become due and payable.

On behalf of the Board  
TFS Properties Ltd

A handwritten signature in black ink, appearing to read 'Frank Wilson', with a long horizontal stroke extending to the right.

**Frank Wilson - Director**  
Perth, 5 December 2013



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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 2011 for the financial year ended 30 June 2013, 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 5<sup>th</sup> day of December 2013