



05 December 2017

Dear Grower,

UPDATE ON QUINTIS LTD

Please find below an update on recent developments at Quintis Ltd, the parent company of Sandalwood Properties Ltd (**SPL**).

FY17 ANNUAL REPORT

Quintis Ltd released its FY2017 annual report and financial accounts on Tuesday 14 November 2017.

The accounts showed a statutory net loss after tax of \$416.8 million (FY2016: \$90.1 million net profit after tax). This result was largely driven by three key factors, two of which were non-cash.

The biggest impact on Quintis' financials was the write-down in the valuation of Quintis' own plantations. This writedown reflected changes to input estimates following the completion of the Company's fourth plantation harvest in 2017 and the ongoing assessment of the assumptions applied in the Directors' valuation. These changes included a reduction in forecast heartwood yield, a decrease in projected oil content and an increase to the discount rates used in the fair value calculation, to reflect the increased uncertainty of returns from the biological assets.

Similarly, Quintis recorded an impairment to the value of its goodwill and non tangible assets. The bulk of this impairment resulted from a \$134.5 million impairment to the value of the goodwill and in-process research and development intangible assets relating to Quintis' US-based pharmaceutical division, Santalis. Quintis has re-evaluated the Santalis business and amended the expected timing and probability of revenues from its prescription pharmaceutical product portfolio.

The largest cash impact on Quintis' financials was from a \$97.4 million drop in revenue. This was largely caused by a significant fall in revenue from plantation establishment fees, as Quintis recorded no sales of plantation investment products in the fourth quarter of the financial year, the period in which, historically, the majority of such plantation sales have been completed.

More details on each of these are available at www.asx.com.au.

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QUINTIS LEASING PTY LTD	ABN 84 080 978 721
QUINTIS PRODUCTS PTY LTD	ABN 85 103 368 707
SANDALWOOD PROPERTIES LTD	ABN 31 093 330 977

FY17 PROJECT VALUATIONS

Quintis and SPL are currently finalising the annual reports which include the plantations owned by third party growers. Quintis and SPL expect the valuations of grower trees will also be reduced, for the same reasons stated above. We currently anticipate these will be finalised in the next couple of weeks and growers will then be provided with an update on the valuation of each project.

2017 HARVEST

The harvest of our fourth Indian Sandalwood plantation, TFS Sandalwood Project 2002, was completed earlier this year. A total of 5,517 trees over 26.3 hectares were harvested in Kununurra on behalf of non-electing growers (growers who did not elect to collect their own produce). The harvested wood is being stored in the Primary Processing Centre in Kununurra ready for inspection by interested purchasers. SPL are currently marketing to sell the wood via a public tender. The tender is being advertised domestically and internationally.

Quintis' operations team have measured and weighed the TFS 2002 grower wood and have calculated the estimated heartwood from the harvested trees at approximately 38 tonnes. This was below the yield expected by Quintis. The yield expectation for the 2017 harvest was based on the same predictive model that was proven accurate with the larger 2016 harvest of approximately 100 hectares. As a result, the outcome of the 2017 harvest was subject to comprehensive investigation and two main reasons were identified that contributed to the lower than expected yield:

- i. A lower bole height (the distance from the base of the tree to the base of the first living branch that forms a part of the tree crown) than the 2016 harvest. An assessment of the 2016 harvest results (the Quintis group's first significant harvest) found a strong correlation between bole height and aromatic heartwood yield. The mean bole height in the 2017 harvest was found to be 10cm lower than that of 2016; and
- ii. The two sites harvested in 2017 experienced lower levels of photosynthetic activity over the last few years of the rotation. Investigations are still underway as to the cause of this but initial indications suggest that localised rising salinity, linked to a rising water table, was a key factor.

The Quintis group has incorporated the learnings from the 2016 and 2017 harvests into both its ongoing forestry activities and its yield forecasts.

POTENTIAL RECAPITALISATION

As advised in various market updates Quintis continues to seek to resolve its liquidity issues and complete a recapitalisation of the Quintis group. The recapitalisation currently being contemplated involves a combination of a capital injection, amendments to existing debt facilities and the \$US20 million short term financing facility announced on 14 November 2017. Together these are expected to provide Quintis with the liquidity required to support its continued operation prior to and post the implementation of the recapitalisation. While the recapitalisation discussions are well progressed, no binding agreements have been entered into and there is no guarantee that the recapitalisation will be completed in this form or another form. Quintis will continue to provide regular updates via the ASX platform.

NEW FINANCING FACILITY

The recent decision by Noteholders to provide up to US\$20 million in additional funds to Quintis to enable the Company to complete the recapitalisation and continue to manage the plantations is a positive development.

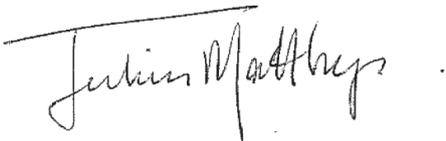
Your trees continue to be managed by our experienced forestry team and they have largely completed preparations for the onset of the wet season across northern Australia.

As mentioned in previous correspondence, a solvent recapitalisation of Quintis' debt and equity will not impact upon the ownership of your plantation or your management agreement with the Quintis group. A successful solvent recapitalisation will see new capital invested into the Quintis group to ensure that there are sufficient funds to continue to manage your asset in order to maximise the value to be realised at maturity.

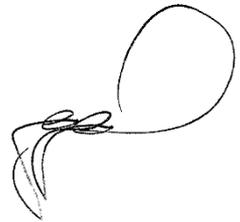
We encourage you to read Quintis' ASX announcements which can be found in the Announcements section of the Quintis website (quintis.com.au/corporate/shareholders/announcements) or on the ASX (www.asx.com.au – ASX Code: QIN).

Should you have any questions please contact our office on +61 8 9215 3000.

Yours sincerely,



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Chief Executive Officer
Quintis Ltd



Greg Gaunt
Chairman
Sandalwood Properties Ltd