

13 September 2018

Dear Grower

We are writing to you in relation to the harvest of TFS Sandalwood Project 2003 (“the 2003 Project”).

HARVEST TIMING

Sandalwood Properties Limited (“SPL”) has been in contact with a large number of the 2003 Project growers to listen to their views on the timing of the harvest of the 2003 Project which is scheduled to commence in 2018. Growers have offered various views. For example, the largest independent grower in the 2003 Project, amongst others, prefers the harvest dates to be unchanged and for the Project returns not to be delayed. In contrast, we have spoken to other growers who have suggested that the entire harvest be delayed until 2019, rationalising that wood prices may increase in this period.

As you will be aware, a meeting of growers in the 2003 Project was held on 23 July 2018 (the “2003 Meeting”) and resolutions were purported to be passed removing SPL as responsible entity of the 2003 Project and appointing Huntley Management Limited as replacement responsible entity and the Sandalwood Growers Co-operative Limited as manager of the 2003 Project (the “Resolutions”). As noted in our recent correspondence of 23 August 2018 and 30 August 2018, we have made an application to the Federal Court of Australia in relation to the validity of the 2003 Meeting and the Resolutions. The matter is scheduled to be heard on 2 October 2018 which is, due to the onset of the wet season in Kununurra, after the harvest window for the 2018 calendar year closes.

The onset of the wet season introduces risks to the successful harvesting of Sandalwood plantations, including:

- Degradation of the forest produce – high temperatures and humidity are ideal for microbes to flourish and degrade the quality of the wood; and
- Operational effectiveness – relatively small rains can reduce the precision of the harvest operators and frequently make the plantations impassable by foot or machine.

SPL is still the Responsible Entity of the 2003 Project. The law is clear that any change of Responsible Entity does not take effect until the appropriate notification has been lodged with ASIC and this has not occurred. SPL therefore retains the full authority of the Responsible Entity and the corresponding obligations to growers.

SPL has considered how best to protect the interests of growers in the 2003 Project. Taking into consideration the different views offered by growers, we intend to shortly commence harvest. The 2018 harvest will represent approximately 50% (approximately 17 hectares) of the 2003 Project assets that were due to be harvested in 2018 (approximately 37% of the total 2003 Project). This course of action respects the views of both those growers preferring no change to the harvesting plans and those that prefer a delay. The 2003 Project was planted across two years and is due to be harvested across 2018 and 2019. The balance of the 2003 Project (approximately 28 hectares) will be harvested in 2019.

The specialised harvesting team of Quintis Forestry will commence harvest of the 17 hectares on 17 September 2018 and we expect the harvest to be concluded by the end of September.

SANDALWOOD PROPERTIES LTD ABN 31 093 330 977
(Subject to Deed of Company Arrangement) (Receivers and Managers Appointed)

THE OLD SWAN BREWERY
LEVEL 2, 171-173 MOUNTS BAY ROAD, PERTH WA 6000
PO BOX 3040, BROADWAY, NEDLANDS WA 6009
T +618 9215 3000 F +618 9215 3090
info@quintis.com.au quintis.com.au

SALES PROCESS

SPL is finalising a comprehensive Sales and Marketing Plan for the sales process that will follow this harvest. This plan will be published and is aimed at providing greater transparency to growers on the tender process conducted for the sale of MIS harvested wood. This plan includes actions taken by SPL to respond to feedback received from growers in previous projects. The key changes include, but are not limited to:

1. PwC Australia (PwC), one of Australia's leading professional services firms, has been appointed as probity advisor to oversee the tender process. PwC will receive all the bids for the harvested produce and will certify that the tender lots are awarded to the highest bidder.
2. SPL will publish the protocol for the conduct of the tender process outlining the minimum marketing periods, standards for wood presentation to bidders, bidder inspection arrangements (wood to be available for viewing at both Kununurra and Perth); tender terms, amongst other things.
3. The marketing efforts of SPL and Quintis Forestry will be supplemented by marketing activities from third party marketing firms. This is to further promote the harvested produce to sandalwood industry participants.

The costs of the additional governance and marketing support will be borne by Quintis.

As in previous years, SPL intends to sell the harvested produce via a public tender. The tender will be an open market process and all interested parties (including Mt Romance and the Sandalwood Growers Coop) will be invited to participate. Bids will be accepted on either single lots or all lots in one line. SPL will accept bid combinations that maximise returns for growers.

Please provide any questions or feedback you have on the above update to either David Renton (david@quintis.com.au) or Marina de Grys (marina@quintis.com.au).

Yours faithfully

SANDALWOOD PROPERTIES LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT) (RECEIVERS AND MANAGERS APPOINTED)



Shaun Fraser
Receiver and Manager