



TFS SANDALWOOD PROJECT 2010
ARSN: 142 774 132

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017



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RESPONSIBLE ENTITY'S REPORT

The Directors of Sandalwood Properties Ltd (formerly known as TFS Properties Ltd); ("Responsible Entity") (ACN 093 330 977) as Responsible Entity for TFS Sandalwood Project 2010 ("the Project" or "the Scheme"), submit their report for the year ended 30 June 2017.

Directors

The names of the Directors of Sandalwood Properties Ltd (the "Directors") during the year and until the date of this report are set out below. The Directors were in office for this entire period unless otherwise stated.

Mr Julius Matthys (Appointed 19 October 2018)
Mr Kent Burwash (Chairman) (Appointed 1 November 2018)
Mr Steve Dixon (Appointed 1 November 2018)
Mr Greg Gaunt (Chairman) (Resigned 18 June 2018)
Mr John Groppoli (Resigned 18 June 2018)
Mr Rob Scott (Resigned 18 June 2018)
Mr Dalton Gooding (Resigned 12 July 2017)
Mr Ross Kestel (Resigned 5 July 2017)

Principal Activities

The Project is a Managed Investment Scheme for the purposes of the Corporations Act 2001 and is regulated by the project's Constitution and the Corporations Act 2001. The Scheme participants' (Growers) interests in the Sandalwood lots are managed by the Responsible Entity as a single commercial plantation for the benefit of the growers.

Change of State of Affairs

There have been no other significant changes in the state of affairs of the project during the year other than those disclosed in "Likely Developments and Expected Results".

Results of Operations

During the year, the Scheme continued to be managed in accordance with the investment objective and strategy set out in the Scheme's offer document and in accordance with the Scheme constitution.

Growers are establishing and participating in their own forestry plantation business.

The Scheme derived no operating profit during the financial year (2016: Nil) and made no distributions (2016: Nil).

Likely Developments and Expected Results

The investment strategy of the Scheme will be maintained in accordance with the Scheme constitution and investment objectives as detailed in the Product Disclosure Statement.

Under the Scheme, Growers enter into a lease and management agreement with the Responsible Entity and Quintis Leasing Pty Ltd (formerly known as TFS Leasing Pty Ltd). The planting, management, harvest and sale of the trees on the Sandalwood lots are conducted by the project manager, Quintis Forestry Ltd (formerly known as TFS Forestry Services Ltd), as appointed by the Responsible Entity. The Responsible Entity, project manager and Quintis Leasing Pty Ltd were wholly owned subsidiaries of Quintis Ltd ("Quintis"). Quintis Ltd together with its consolidated subsidiaries are referred to as the "Quintis Group". The Scheme's liquidity position is linked to its Responsible Entity, which in turn is linked to Quintis Holdco Pty Limited ("QHPL") (Parent Company of the Responsible Entity), due to on-demand loans extended to Quintis.

On 20 January 2018, Quintis appointed Richard Tucker, Scott Langdon, and John Bumbak of KordaMentha as voluntary administrators of the Quintis Group. Following this, on 23 January 2018, the Quintis Group's secured noteholder appointed John Preston, Shaun Fraser and Robert Brauer of McGrathNicol as Receivers and Managers of the Quintis Group.

On 8 June 2018, the creditors voted for the Receivers' proposed Deed of Company Arrangement ("DOCA") for Quintis. The creditor vote enabled the strategy to recapitalise Quintis with between A\$125 million and A\$175 million in new cash to be injected into the business to fund operations on a long-term basis.

Quintis was recapitalised effective 30 October 2018 after receiving A\$145 million in funding from its new shareholders.

As part of the recapitalisation the Quintis Group was restructured with Quintis being replaced as Parent Company of the Quintis Group by QHPL.

RESPONSIBLE ENTITY'S REPORT

In October 2018 First Lien notes were issued by the Quintis Group with a principal of USD\$151m, and will mature on September 15, 2026. It is in the Quintis Group's discretion to pay interest in kind or in cash in years one through six at a rate of 7.5% per annum if paid in cash and 8.0% per annum if paid in kind. Interest is to be paid in cash at 7.5% per annum in years seven and eight. Interest is payable semi-annually in arrears.

In October 2018 Second Lien notes were issued by the Quintis Group with a principal of USD\$185m, and will mature on September 1, 2028. No interest is payable in years one through six. Interest is accrued in years six through ten at a rate of 12.0% per annum. Interest is payable semi-annually in arrears.

The recapitalisation will enable the responsible entity to continue to execute the investment strategy of the scheme in accordance with the Scheme constitution and investment objectives as detailed in the Product Disclosure Statement.

Growers include interests held by the Responsible Entity or the subsidiaries of QHPL. At 30 June 2017 there were 52 units (1/6th ha) held by the Responsible Entity or subsidiaries of QHPL and 1,742 units held by other Growers in the project.

Expert Forester's Report

Expert Forester's Report for the period from 1 July 2016 to 30 June 2017

This report reviews the status of the plantations managed under this project by Tropical Forestry Services, and discusses the maintenance operations carried out by the company over the year ended 30 June 2017.

TFS 2010 is located on three properties on the Ivanhoe Plain north of Kununurra town site and they include 13 management units referred to as Stands. They are Lot 235 Waringarri Farm Stands 4, 5, and 6; Pioneer Farm (Lot 238) Stands 38A, 38B, 38C, and 39A to 39E inclusive; and Kimpton Farm (Lot 241) Stands 53A and 53B. All were planted in 2011 and were six years old as at 30 June 2017.

Stands in Waringarri plantation are variable with Stand 5 holding a Sandalwood stocking that is on target (400 trees/ha) while Stands 4 and 6 carry a poor Sandalwood stocking of 179 and 179 trees/ha respectively. The poor performance of Stands 4 and 6 can be attributed to poor soils. Sandalwood and some of its host are not adapted to heavy Aquitaine clay soils. Trees are recovering from the prolonged wet season of 2016/2017 and the recent cool weather. Sandalwood is not adapted to long periods of saturated soil which kills the fine roots and the connections (haustoria) to host lost.

Records indicate that each Stand was irrigated on 4 occasions during the dry season with an average of 3.2 ml/ha being applied at each event. The range was between 2.5 and 4.4 ml/ha. This is more than the target of 2 ml/ha for each irrigation event.

Stands 4 and 6 received 4 broadscale applications of herbicide while Stand 5 received 3 applications. The objective of herbicide spraying is to control weeds that might impede the flow of irrigation water and to reduce the fire hazard. Agrifos was applied from the air on two occasions as a prophylactic treatment to prevent infection by root fungi.

All Stands at Waringarri hold a good stocking of Sandalwood (>400 tree/ha), except for Stands 4 (179 tree/ha), Stand 6 (179 tree/ha) and Stand 7 (188 tree/ha) which are significantly below target. This is due to heavy soils predominating in these three Stands.

Pioneer plantation remains healthy and vigour of both Sandalwood and its hosts is good, although Stand 38B is below average. Pioneer Stands were irrigated on 4 occasions with an average of 2.8 ml/ha on each occasion. The average was between 1.6 and 4.4 ml/ha. This is generally above the target volume.

Herbicide was sprayed to control weeds on 4 occasions in each of the Stands. This prevents weeds from impeding the flow of irrigation water and reduces the fire hazard. Agrifos was sprayed from the air on two occasions to prevent infection by soil fungi that affect Sandalwood and *Cassia siamea*. Form pruning of Sandalwood was carried out during the year to encourage the development of single stems. There is evidence that single-stemmed trees produce more heartwood than forked or multi-stemmed trees.

The Sandalwood stocking at Pioneer plantation is generally on target (>400 trees/ha) except for Stand 38C (326 trees/ha) being slightly below target. This is not seen as an issue as recent observations show that by concentrating growth on fewer Sandalwood trees may increase production.

The Sandalwood at Kimpton was severely affected by the inundation that occurred in the wet season of 2013/2014 and many trees died as a result of a long period of inundation. Thus, Kimpton is variable. The past wet season was also prolonged, although inundation for long periods did not occur. However, the Sandalwood trees lost much of their crowns and the *Dalbergia lanceolaria* lost all their leaves due to cool weather. None the less, the Sandalwood trees and the *Dalbergia lanceolaria* are recovering.

RESPONSIBLE ENTITY'S REPORT

Each Stand at Kimpton was irrigated on 4 occasions with an average of 3.0 ml/ha being applied on each occasion. This is above the target of 2.0 ml/ha.

A broadscale spray of herbicide was applied on 5 occasions. This is primarily to kill weeds that might impede the flow of irrigation water through the plantation while also reducing the fire hazard. Agrifos was applied on one occasion to prevent infection by the root rot fungus *Phytophthora*. The Sandalwood trees were form pruned to encourage the development of a single stem. There is strong evidence that single stemmed trees produce more heartwood than trees that are multi-stemmed or forked. All interrows were delved to facilitate the flow of irrigation water.

All Stands at Kimpton are slightly below the target stocking for Sandalwood except for Stand 53A. This is unlikely to be an issue as there is mounting evidence that, in order to maximise growth on Sandalwood, trees will have to be thinned to increase resources available to selected trees.

Infrastructure was maintained with irrigation channels being kept clean and interrows delved. Project 2010 is being well managed.

Expert Forester's Report for the period from 1 July 2017 to 30 June 2018

This report reviews the status of the plantations managed under this project and discusses the maintenance operations carried out by the company over the past year.

Project 2010 is located on three properties on the Ivanhoe Plain north of Kununurra town site and they include 13 management units referred to as Blocks. They are Lot 235, Waringarri Farm Blocks 4, 5, and 6; Pioneer Farm (Lot 238) Blocks 38a, 38b, 38c, and 39a to 39e inclusive; and Kimpton Farm (Lot 241) Blocks 53A and 53B. All were planted in 2011 and are now seven years old. Blocks in Waringarri plantation are variable. Blocks 4 and 6 are unthrifty which can be attributed to poor soils. Sandalwood and many of its host are not adapted to heavy Aquitaine clay soils.

Blocks 4 and 5 were irrigated on six occasions while Block 6 was irrigated on five occasions during the dry season. The average volume applied on each occasion was 2.9, 2.8 and 3.3 MI/ha. The range was from 1.9 MI/ha to 4.8 MI/ha. This is above the target of 2 MI/ha for each irrigation event. Interrows were delved to facilitate the flow of irrigation water through the plantation.

Each Block was blanket sprayed with a knockdown herbicide on three occasions. The objective of herbicide spraying is to control weeds that might impede the flow of irrigation water and to reduce the fire hazard.

A systemic insecticide was applied to all the Blocks from the air. This targeted the stem borer *Maroga melanostigma* that can be a vector for wood rot fungi.

Pioneer plantation remains healthy and vigour of both Sandalwood and its hosts is good, although Block 38b is below average and there is a poor patch in 39d.

Pioneer Blocks were irrigated on occasions with an average of 3.1, 3.4, 3.6, 2.9, 3.0, 3.4, 2.9 and 2.7 MI/ha on each occasion for Blocks 38a, 38b, 38c, 39a, 39b, 39c, 39d and 39e respectively. The average was between 1.6 and 6.0 MI/ha. This is generally above the target volume. All Blocks were delved to facilitate the flow of irrigation water through the plantation.

A knockdown herbicide was blanket sprayed to control weeds on three occasions in each of the Blocks. This prevents weeds from impeding the flow of irrigation water and reduces the fire hazard.

Form pruning of sandalwood was carried out during the year in each of the Blocks to encourage the development of single stems. There is evidence that single-stemmed trees produce more heartwood than forked or multi-stemmed trees.

A systemic insecticide was sprayed from the air to all eight Blocks. This was to control the stem borer *Maroga melanostigma* which has the potential to become a vector for wood rot fungi.

Boundary trees were hedged to improve access by machinery.

The sandalwood at Kimpton was severely affected by the inundation that occurred in the wet season of 2013/2014 and many trees died as a result of a long period of inundation. Thus, Kimpton is variable, although the remaining sandalwood trees are now healthy. Hosts are vigorous. Block 53a is particularly healthy suggesting an appropriate irrigation schedule was applied. Block 53b is average although all trees are vigorous.

Each Block at Kimpton was irrigated on 7 occasions with an average of 2.4 and 2.2 MI/ha being applied on each occasion. This is slightly above the target of 2.0 MI/ha to be applied at each event..

RESPONSIBLE ENTITY'S REPORT

Block 53.1 received a blanket spray of a knockdown herbicide on two occasions while Block 53.2 received a single blanket spray. This is primarily to remove weeds from the interrows and allow the free flow of irrigation water. It also serves to reduce the fire hazard. The Blocks were delved to aid the flow of water through the plantation. Debris was mulched in Block 53.2 also to facilitate water movement.

Each Block was sprayed with a systemic insecticide to control the stem borer *Maroga melanostigma*.
Boundary trees were hedged to improve access for machinery.

All Blocks at Kimpton are slightly below the target stocking for sandalwood except for Block 53A. This is unlikely to be an issue as there is mounting evidence that, in order to maximise growth on sandalwood, trees will have to be thinned to increase resources available to residual trees.

Sandalwood stocking in most Blocks are standing close to the optimum level. The exception is Waringarri 4 which is significantly below target stocking.

Infrastructure was maintained with irrigation channels being kept clean and interrows delved. Project 2010 is being well managed.

Environmental Management

The project's operations are subject to significant environmental regulations under the laws of the Commonwealth and State. There have been no significant known breaches of any environmental regulations to which the project is subject.

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 have an effect on the project for the current or subsequent financial year. The Directors will reassess this position as and when the need arises.

Indemnification and Insurance of Directors and Officers

The constitution of the Responsible Entity requires it to indemnify all current and former officers under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Scheme.

During or since the financial year, the Responsible Entity has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Responsible Entity. The cover included professional indemnity as well as Directors' and officers' insurance. The contract with the insurer prohibits the disclosure of the nature of the liabilities or the amount of premium paid.

Indemnification of Auditors

To the extent permitted by law, the Responsible Entity has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Events after the Reporting Period

Other than the matters disclosed in heading "Likely Developments and Expected Results" and "Expert Forester's Report", since 30 June 2017, 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.

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 for the year ended 30 June 2017 has been received and can be found on page 17 of the report.

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



Kent Burwash - Chairman

Dated at Perth this 5th day of June 2019

Independent auditor's report to the Growers of TFS Sandalwood Project 2010

Opinion

We have audited the financial report of TFS Sandalwood Project 2010 (the Registered Scheme), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in growers' funds and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and declaration of the directors of Sandalwood Properties Ltd, the Responsible Entity of the Registered Scheme.

In our opinion, the accompanying financial report of the Registered Scheme is in accordance with the *Corporations Act 2001*, including:

- a) Giving a true and fair view of the Registered Scheme's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- b) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Registered Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The directors of the Responsible Entity are responsible for the other information. The other information is the Responsible Entity's report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Registered Scheme's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Registered Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Registered Scheme's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Registered Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Registered Scheme to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Ernst & Young



D S Lewsen
Partner
Perth
5 June 2019

TFS SANDALWOOD PROJECT 2010
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	30 June 2017 \$	30 June 2016 \$(restated)*
Other income and expense		
Fair value (loss) / gain on biological assets	-	-
Expenses	-	-
Operating (loss) / profit	-	-
Income tax	-	-
Net (loss) / profit for the year	-	-
Other comprehensive income	-	-
Total comprehensive (loss) / income for the year	-	-

*Refer to Note 11

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

TFS SANDALWOOD PROJECT 2010
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	30 June 2017 \$	30 June 2016 \$ (restated)*	30 June 2015 \$ (restated)*
Non Current Assets			
Biological assets	-	-	-
Total Assets	-	-	-
Current Liabilities	-	-	-
Total Liabilities	-	-	-
Net Assets	-	-	-
Growers' Funds			
Contributions from growers	-	-	-
Undistributed income reserve	-	-	-
Total Growers' Funds	-	-	-

*Refer to Note 11

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

TFS SANDALWOOD PROJECT 2010
STATEMENT OF CHANGES IN GROWERS' FUNDS
FOR THE YEAR ENDED 30 JUNE 2017

	Contributions From Growers \$	Undistributed Income Reserve \$	Total \$
Balance at 1 July 2016 - restated*	-	-	-
Total comprehensive loss for the year	-	-	-
Balance at 30 June 2017	-	-	-
Balance at 1 July 2015 – as previously reported	20,628,930	30,152,395	50,781,325
Restatement *	(20,628,930)	(30,152,395)	(50,781,325)
Balance at 1 July 2015 - restated	-	-	-
Total comprehensive income for the year	-	-	-
Balance at 30 June 2016 - restated*	-	-	-

*Refer to Note 11

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

TFS SANDALWOOD PROJECT 2010
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	30 June 2017	30 June 2016
	\$	\$
Cash flows from operating activities		
Receipt from growers	-	-
Payments to suppliers	-	-
Total cash outflow from operating activities	-	-
Net movement in cash held	-	-
Cash at the beginning of the year	-	-
Cash at the end of the year	-	-

All cash transactions during the year were processed and managed by the 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.

1. GENERAL INFORMATION AND STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the TFS Sandalwood Project 2010 ("the Project" or "the Scheme") as an individual entity. The Project is a Managed Investment Scheme registered in Australia. The Scheme is expected to terminate on 30 June 2025 or at a later date, in accordance with the provisions of the Scheme Constitution.

The Responsible Entity of the Scheme is Sandalwood Properties Ltd (the "Responsible Entity").

Under the Scheme, Growers enter into a Lease and Management Agreement with the Responsible Entity and Quintis Leasing Pty Ltd (a related entity of the Responsible Entity and formerly known as TFS Leasing Pty Ltd). Under the Lease and Management Agreement, the Grower sub-leases their Sandalwood lot(s) from Quintis Leasing Pty Ltd and appoints the Responsible Entity to plant, manage and harvest the trees on the lot, as well as sell the Grower's share of the harvest of the plantation (not applicable where the Grower is an electing Grower as defined below) in consideration for the Grower agreeing to pay establishment fees, annual lease and management fees, a harvest fee and a sales and marketing fee (not applicable where the Grower is an electing Grower).

A Grower is a non-electing Grower unless they have elected to collect their share of the plantation harvest in which case they are an electing Grower.

The Scheme will continue to be managed in accordance with the investment objective and strategy set out in the Scheme's offer document and in accordance with the Scheme Constitution.

The financial report was authorised for issue on 5 June 2019 by the Board of Directors.

Going concern considerations

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity.

The Scheme's liquidity position is linked to its Responsible Entity, which in turn is linked to Quintis Holdco Pty Limited ("QHPL") (Parent Company of the Responsible Entity), due to on-demand loans extended to Quintis.

During the year, Quintis and its consolidated entities (together "the Quintis Group") incurred a significant net loss after tax and generated negative net cash flow from operating activities for the year ended 30 June 2017. At balance date the Quintis Group's total current liabilities also exceeded its total current assets.

Quintis was recapitalised effective 30 October 2018 after receiving A\$145 million in funding from its new shareholders. With a restructured balance sheet, Quintis is now a well-funded private company. The successful recapitalisation enabled the Quintis Group to continue as a going concern and provided the Responsible Entity with the funding support required to continue to manage and maintain Indian Sandalwood plantations as Responsible Entity for the Scheme.

After taking into account all available information, the Directors of the Scheme have concluded that there are currently reasonable grounds to believe that the preparation of the 30 June 2017 financial report on a going concern basis is appropriate.

Basis of Preparation

These general purpose financial statements for the year ended 30 June 2017 have been prepared in accordance with requirements of the Corporations Act 2001, Australian Accounting Standards applicable to "for profit entities" and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The financial statements have also been prepared on an accruals basis and is based on historical cost.

The financial statements only include Scheme property which does not include: -

-) the application money paid by the Grower to the Responsible Entity which covers the establishment fee, upfront annual fee and upfront rent;
-) the lease and management fees paid by the Grower to the Responsible Entity under the Lease and Management Agreement;
-) the trees growing on each Grower's lot;
-) the harvest produce; and
-) the harvest proceeds received by the Responsible Entity on sale of the harvest produce held in trust for the non-electing Growers.

The Scheme has adopted all new and amended Accounting Standards and Interpretations effective as of 1 July 2016. The adoption of these new and amended Accounting Standards and Interpretations had no material impact on the financial position or performance of the project.

1. GENERAL INFORMATION AND STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Functional and presentation currency

Items included in the Scheme's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Scheme competes for funds and is regulated. The Australian dollar is also the Scheme's presentation currency.

(b) Significant Accounting Judgements

The Directors of the Responsible Entity (the "Directors") have applied the following key judgements in preparing these financial statements.

Establishment fees paid by Growers

The Directors do not believe that establishment fees paid by Growers to the Responsible Entity represent a contribution to the Scheme and are therefore not Scheme property. Rather these fees are paid to and are received by the Responsible Entity in discharge of the Grower's individual obligation to pay for establishment services relating to the Grower's particular leased area, not the plantation as a whole. Accordingly, establishment fees are not recognised in these financial statements.

Transactions arising from the Lease and Management Agreement

Under the Lease and Management Agreement with the Responsible Entity and Quintis Leasing Pty Ltd (, the Grower sub-leases their Sandalwood lot(s) from Quintis Leasing Pty Ltd and appoints the Responsible Entity to plant, manage and harvest the trees on the lot (not applicable where the Grower is an electing Grower as defined below), as well as sell the Grower's share of the harvest of the plantation in consideration of the Grower agreeing to pay establishment fees, annual lease and management fees, a harvest fee and a sales and marketing fee (not applicable where the grower is an electing grower).

Transactions arising from the Lease and Management Agreement and other associated charges made between the grower and the Responsible Entity have been excluded from the scope of transactions recognised in the project financial statements. The Directors do not believe the annual payments made by the growers to the Responsible Entity become Scheme property. Rather they are paid to and received by the Responsible Entity as rent and fees in discharge of a grower's individual obligation to pay such amounts.

Sandalwood trees and harvest produce

The Sandalwood trees established from the establishment services grow on the individual Grower's leased area. A Grower has full right, title and interest in either the Grower's proportional share of harvested trees (if an electing Grower) or the Grower's proportional share of harvest proceeds from the sale of the harvested trees (if a non-electing Grower). While there is an element of pooling to arrive at the harvested trees, the Grower retains full right, title and interest in the harvested trees. Accordingly, the Directors also believe that the Sandalwood trees and harvest produce are the assets of the Grower rather than the Scheme and as such should not be recorded in the Scheme financial statements as biological assets or inventory respectively.

Cash and cash equivalents held in trust for the Growers

Under the Scheme and Lease and Management Agreement, the Responsible Entity is required to establish separate bank accounts which are maintained by an independent custodian for certain funds received including Application Money received from Growers and gross proceeds from the sale of harvested trees for electing Growers. These bank accounts are held in the name of the Responsible Entity and maintained by an independent custodian in trust for the Growers. The Directors do not believe the funds held by the Responsible Entity in trust for the Growers become Scheme property and therefore these bank accounts have not been recorded in the Scheme financial statements.

(c) New and amended Accounting Standards and Interpretations issued but not yet effective

A number of new and amended Accounting Standards and interpretations are effective for annual periods beginning after 1 July 2017, and have not been applied in preparing these financial statements. It is not expected that these new and amended Accounting Standards (and Interpretations) will have a significant impact on the Scheme.

2. OPERATING SEGMENTS

Identification of reportable segments

The Responsible Entity has identified that the Scheme has one reportable segment which is consistent with the financial statements as a whole.

3. SUBSEQUENT EVENTS

Other than the recapitalisation of Quintis, since 30 June 2017, 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 Scheme.

4. FINANCIAL INSTRUMENTS

The Scheme holds no financial instruments.

5. RELATED PARTY DISCLOSURE

(a) Responsible Entity

The Responsible Entity of the TFS Sandalwood Project 2010 is Sandalwood Properties Ltd, whose immediate parent company is Quintis Ltd and Ultimate Holding company is Quintis Holdco Pty Limited.

(b) Directors and key management

The Directors and key management of the Responsible Entity during the period and until the date of this report were:

Mr Julius Matthys (Appointed 19 October 2018)
Mr Kent Burwash (Chairman) (Appointed 1 November 2018)
Mr Steve Dixon (Appointed 1 November 2018)
Mr Greg Gaunt (Chairman) (Resigned 18 June 2018)
Mr John Groppoli (Resigned 18 June 2018)
Mr Rob Scott (Resigned 18 June 2018)
Mr Dalton Gooding (Resigned 12 July 2017)
Mr Ross Kestel (Resigned 5 July 2017)

(c) Fees paid or payable to the Responsible Entity

The Responsible Entity receives all lease and management fees which have been paid by the Growers during the year. Refer to Note 1(b) for additional detail on transactions arising from the Lease and Management Agreement.

The Responsible Entity did not charge any fees from the Scheme during the year ended 30 June 2017 (30 June 2016: nil).

The Responsible Entity provides Sandalwood plantation establishment and management services for TFS Sandalwood Project 2010 and carries out the custodial and administrative functions.

There were no related party transactions during the year. As at 30 June 2017, amounts payable between the Scheme and the Responsible Entity was nil.

(d) Holdings of Directors and Director Related Entities

No lease interests (on the same terms and conditions as other growers) are held by Directors or parties related to Directors.

A total of 52 units are held by the Responsible Entity subsidiaries of Quintis and are held 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 of Quintis.

6. COMPLIANCE MATTERS

(a) Compliance Committee

There was no Compliance Committee in the current year following the appointment of independent Directors and an independent Chairman to the Board of the Responsible Entity in the prior year. The Compliance Officer continued to be Neil Hackett in the current year. Quentin Megson was appointed Compliance Officer subsequent to year-end following Mr Neil Hackett's resignation on 31 July 2017. On 2 March 2018, Mr Quentin Megson resigned as Compliance Officer and on 26 March 2019 Mr David Mahon was appointed as Compliance Officer.

(b) Remuneration of Directors and Compliance Committee

In the current year, no fees were paid (2016: \$4,057, GST exclusive) to the Compliance Committee following the appointment of the Directors to the board of the Responsible Entity (refer to Note 6(a)). \$13,824 was paid to the Directors for provision of their services during the year ended 30 June 2017. Fees for the Scheme are borne by Sandalwood Properties Ltd, the Responsible Entity.

7. AUDITOR REMUNERATION

Ernst & Young are the auditors of the Scheme and the Scheme's compliance plan. During the year the auditors received remuneration in relation to the project of \$5,575 (2016: \$7,623). Audit fees for the Scheme are borne by Sandalwood Properties Ltd, the Responsible Entity.

8. CONTINGENT LIABILITIES

There are no contingent liabilities during the year ended 30 June 2017.

9. INCOME TAXES

Under current Australian legislation, the Scheme is not subject to income tax provided the growers are presently entitled to the income of the Scheme and the Scheme fully distributes its net taxable income.

10. PROJECT DETAILS

The registered office of the project and principal place of business is Level 2, 171-173 Mounts Bay Road, Perth WA 6000.

11. RESTATEMENT RELATING TO THE EXTENT OF TRANSACTIONS RECOGNISED IN THE FINANCIAL STATEMENTS

During the current year, the Directors determined based upon updated legal advice obtained, that for the reasons set out in Note 1 to the financial statements: -

-) application money paid by Growers;
-) trees growing on individual Grower's lots;
-) harvest produce; and
-) harvest proceeds received by the Responsible Entity on sale of the harvest produce held in trust for the non-electing Growers;

are not Scheme property and as such, should not have been recognised in the financial statements of the Scheme.

As a result, the following adjustments were made to the comparative financial information to eliminate transactions and balances relating to these items:

	30 June 2016 Audited	Adjustment	30 June 2016 (restated)
Statement of Profit or Loss and Other Comprehensive Income			
Fair value (loss) / gain on biological assets	4,480,588	(4,480,588)	-
Net (loss) / profit for the year	4,480,588	(4,480,588)	-
Total comprehensive (loss) / income for the year	4,480,588	(4,480,588)	-
Statement of Financial Position			
Biological assets	55,261,913	(55,261,913)	-
Contributions from growers	20,628,930	(20,628,930)	-
Undistributed income reserve	34,632,983	(34,632,983)	-
	30 June 2015 Audited	Adjustment	30 June 2015 (restated)
Statement of Financial Position			
Biological assets	50,781,325	(50,781,325)	-
Contributions from growers	20,628,930	(20,628,930)	-
Undistributed income reserve	30,152,395	(30,152,395)	-

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Sandalwood Properties Ltd, I state that:

In the opinion of the Directors:

- (a) The financial statements and notes of TFS Sandalwood Project 2010 for the financial year ended 30 June 2017 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Scheme's financial position as at 30 June 2017 and its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulation 2001;
- (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and.
- (c) Subject to the matters set out in Note 1, there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed on behalf of the Board
Sandalwood Properties Ltd



Kent Burwash - Chairman
Dated at Perth this 5th day of June 2019

Auditor's Independence Declaration to the Directors of Sandalwood Properties Ltd, as the Responsible Entity for TFS Sandalwood Project 2010

As lead auditor for the audit of the financial report of TFS Sandalwood Project 2010 for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



D S Lewsen
Partner
5 June 2019