



TFS SANDALWOOD
PROJECT 2013

PRODUCT
DISCLOSURE
STATEMENT



CORPORATE DIRECTORY

The Responsible Entity

TFS Properties Ltd
(ACN 093 330 977)

169 Broadway
Nedlands WA 6009

Telephone: +61 8 9386 3299
Facsimile: +61 8 6389 1546

The Project Manager

Tropical Forestry Services Ltd
(ACN 080 139 966)

169 Broadway
Nedlands WA 6009

Telephone: +61 8 9386 3299
Facsimile: +61 8 6389 1546

Solicitors to the Responsible Entity

Steinepreis Paganin

Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

Telephone: +61 8 9321 4000
Facsimile: +61 8 9321 4333

Auditors of the Responsible Entity, Scheme and Compliance Plan

Bentleys

Level 1, 12 Kings Park Road
West Perth WA 6005

Telephone: +61 8 9226 4500
Facsimile: +61 8 9226 4300

Expert Forester

Kimber Environment Services Pty Ltd

Erskine WA 6210

Telephone: +61 8 9535 7141
Facsimile: +61 8 9535 7141

Market Expert

HS Anantha Padmanabha

Malleswaram
Bangalore India

Telephone: +91 80 679 2528
Facsimile: +91 80 669 4634



IMPORTANT NOTICES

This Product Disclosure Statement ('PDS') contains important information about investing in the TFS Sandalwood Project 2013 (ARSN 161 604 806) (the 'Project'). It should be read carefully and in its entirety. Before deciding whether to subscribe for a Sandalwood Lot in the Project you should consider whether investing in this Managed Investment Scheme ('MIS') is suitable for you. If you are unfamiliar with investments of this kind or if after reading this you are unsure whether or not you should invest, you should consult your licensed financial adviser.

This PDS is dated 19 December 2012 and is issued by the Responsible Entity, TFS Properties Ltd (ACN 093 330 977) ('TFS Properties'). Except for those parts of the PDS consisting of, or based on reports from experts, the Responsible Entity is responsible for its contents.

Investments in the Project are speculative in nature. No person, firm or corporation associated with this PDS guarantees, warrants or underwrites the performance of the Project or any particular investment return from this PDS.

Electronic Product Disclosure Statement

This PDS will be issued on the following website: www.tfsltd.com.au. Any person accessing the electronic version of this PDS for the purpose of investing must be an Australian resident and must only access this PDS from within Australia. The Corporations Act prohibits any person passing on to another person the Application Form unless attached to a hard copy of this PDS or accompanied by the complete and unaltered version of this PDS.

Applicants outside Australia

This PDS does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this PDS. The distribution of this PDS in jurisdictions outside Australia may be restricted by law and persons who come into possession of this PDS should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify the Sandalwood Lots or otherwise permit a public offering of the Sandalwood Lots the subject of this PDS in any jurisdiction outside Australia. It is the responsibility of Applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Sandalwood Lots pursuant to this PDS. The return of a completed Application Form will be taken by the Responsible Entity to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained by the Applicant.

Australian Financial Services Licence

The Responsible Entity has been granted an Australian Financial Services Licence (No. 241192) by the Australian Securities & Investments Commission ('ASIC') which authorises the Responsible Entity to act as responsible entity for the Project as well as certain other MIS.

Need Help?

If you need help regarding investing generally, we recommend that you speak to a licensed financial adviser.

The ASIC can help you check if your adviser is correctly licensed. The ASIC has a website (www.asic.gov.au) as well as help lines you can find in your phone book. If you do not have an adviser contact us and we can put you in touch with someone who can help.

If you have any questions about investing you should speak to your adviser. If you have questions about the Project investment in particular, speak to them, call us or visit our website www.tfsltd.com.au.

About the MIS Agribusiness Sector

A MIS is an investment in a project managed by professional managers with particular skills suited to that project.

This PDS provides information about the TFS Sandalwood Project 2013 managed by TFS Properties as the Responsible Entity. The Responsible Entity is a public company licensed through the ASIC to operate the Project as a registered MIS. The Responsible Entity takes full responsibility for operating and managing the Project, though it is free to appoint managers with specific expertise in certain areas. For example, TFS Properties will appoint Tropical Forestry Services Ltd ('TFS') as Project Manager of the Project.

The purpose of the Project is to plant and raise Indian Sandalwood Trees for Harvest and sale as Cleaned Logs.

Photographs

Unless otherwise stated, the photographs contained in this PDS are for illustrative purposes only. They do not represent, or purport to represent assets of the Responsible Entity or the Project Manager.

Exchange Rates

Unless otherwise stated, it should be noted that where auction prices of heartwood sales in India are quoted, the following exchange rates have been used:

Average Auction Price	Date	Indian Rupees* Conversion Rate
\$111,893	04/03/11	45.71800
\$103,142	05/02/10	43.23000
\$115,000	30/09/09	42.04490
\$110,000	30/11/08	32.45230
\$107,985	19/12/07	33.99718
\$98,930	26/04/07	35.08850
\$101,569	22/11/06	34.57021
\$105,451	24/03/06	31.88653

* Source Oanda, The Currency Site

Throughout this PDS, other exchange rates are used for the purpose of converting foreign currency amounts which do not relate to heartwood auction prices. Where other exchange rates are used, the applicable exchange rate and the relevant date on which the exchange rate was applied are displayed.

It should be noted that the price of heartwood from Indian auctions relate to mature wild sourced trees. These do not necessarily reflect anticipated prices for 14 – 16 year old plantation sourced heartwood.

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SANDALWOOD: AN OVERVIEW



Vertically
Integrated
Sandalwood
Company

Tropical Forestry Services Limited (ACN 080 139 966) ('TFS') engages a team of Experts to carefully select land suited to the growth of Indian Sandalwood (*Santalum album*). TFS will plant Indian Sandalwood in suitable locations in tropical northern Australia. The region's high levels of sunshine, suitable soil types and access to ample water resources make these areas preferred for cultivation. The land will be conditioned and prepared prior to planting.



TFS has seed orchards designed to improve the genetics of the seed stock to produce higher quality trees. Superior trees have been selected based on growth characteristics and oil content. These are then control pollinated to produce seed for use in the project.



TFS has the world's largest custom-built Indian Sandalwood (*Santalum album*) nursery. Sandalwood seedlings are grown in the nursery with the pot host species. Other host trees are also cultivated in separate pots in preparation for planting.



Within 18 months of the acceptance of your Application Sandalwood seedlings and host species will be planted on prepared land.





Sandalwood is a parasite and needs to tap nutrients and water from other trees to survive. Several host species have been selected based on years of trialling and research. These are planted in careful configuration with the Sandalwood with the aim of maximising the growth of the Sandalwood trees.



At the end of the year following the Establishment Period, a tree count will be conducted to assess survival rates of Sandalwood and host trees and any necessary replanting will be conducted.



The Plantation will be managed in accordance with the Plantation Management Plan. This will be performed by the highly qualified and experienced TFS staff.



It is anticipated that Harvests will be conducted 14 to 16 years after planting. Heartwood – the most valuable oil bearing section of the wood – is concentrated in the butt and lower part of the tree. Harvest methods are being developed to maximise the recovery of this valuable resource.



Wood will be processed and sold as Cleaned Logs. It is anticipated that the major buyers of Cleaned Logs will be oil distilleries or wood product manufacturers who will then on-sell their end products to the global luxury, pharmaceutical and religious product markets. These products and markets include Indian worship, cremation, Pan Masala, European style elite fragrance products, Mid-Eastern and Asian (especially Chinese) traditional medicines, religious artefacts (beads necklaces, carvings, incense) and elite quality furnishings. TFS or a related entity is a potential purchaser of the Cleaned Logs.

KEY INVESTMENT FEATURES

- This project aims to produce high quality Indian Sandalwood (*Santalum album*), a commodity that has been traded for thousands of years. This aromatic wood is internationally prized for use in luxury, pharmaceutical and religious product markets. The average price of wild Indian Sandalwood heartwood has had a compounded increase of 16.7% per annum over the last 20 years due to strong demand and diminishing supply that has seen the tree recognised on the International Union for Conservation of Nature and Natural Resources (IUCN) Red List for Threatened Species.
- Auction prices for small volumes of heartwood in India averaged approximately \$112,000 AUD per tonne in March 2011 – confirming Indian Sandalwood's status as one of the world's most valuable tropical hardwoods. Due to the younger age of plantation heartwood, a lower price than wild heartwood should be expected.
- TFS Properties is the Responsible Entity of the Project and has been operating agribusiness schemes since 1998 and exclusively in Sandalwood. TFS Properties is currently the responsible entity of 15 Sandalwood agribusiness schemes (including the Project) and expects to commence first harvest in respect of one of its schemes in 2013.
- The Project is managed by TFS on behalf of TFS Properties. TFS is a specialist Indian Sandalwood plantation manager. TFS has over 14 years experience in the cultivation of Indian Sandalwood.
- TFS has an experienced team of professional foresters, agronomists, research officers and agricultural scientists who manage the Plantations. An ongoing program of monitoring and research is used to maintain good growth and survival rates.
- TFS is a wholly owned subsidiary of TFS Corporation Ltd (ABN 97 092 200 854) ('TFS Corporation'), a public company listed on the Australian Securities Exchange with a market capitalisation of approximately \$130 million as at December 2012.
- TFS Corporation is committed to the long-term development of an Australian grown Indian Sandalwood industry. TFS is working to build relationships with potential buyers of plantation-grown Indian Sandalwood and to promote this industry worldwide.
- The project is expected to be completed in 15 to 17 years, with the Harvest expected to occur when the Sandalwood trees are 14 to 16 years old (year 15 to 17 of the investment).
- Establishment Fee of \$6,875 (including GST) for one Sandalwood Lot (1/12th of a hectare).
- Discounts for 12 or more lots are available with the Establishment Fee being \$6,600 (including GST) per lot (minimum area of one hectare).
- Enhanced Grower security with 50% of Establishment Fee deposited by TFS with an Independent Custodian and released quarterly in the first year of the Project to fund the Establishment Services.
- One year's Annual Fee and Rent will be paid upfront by Growers and deposited by TFS into a trust account maintained by an Independent Custodian. This Upfront Annual Fee and Upfront Rent will be applied in satisfaction of the Annual Fee and Rent payable in Year 14 of the Project, unless the Responsible Entity or TFS Leasing Pty Ltd becomes insolvent and therefore unable to pay for the Ongoing Services. In such an event Growers can pass a resolution to direct the Independent Custodian to release the Upfront Annual Fee and Upfront Rent and apply it in satisfaction of the outstanding Annual Fee and Rent for the following year of the Project.
- Flexible product options with readily available finance through Arwon Finance Pty Ltd ('Arwon Finance'), a wholly owned subsidiary of TFS Corporation Ltd, through either a 12 Month Interest Free Loan or a Principal and Interest loan. See page 41 of this PDS for further details in relation to these loans.
- Annual Investment Option: You pay the Establishment Fee, followed by electing to pay the ongoing Annual Fee and Rent on an annual basis. If you pay the Annual Fee and Rent in each year of the Project, you retain the entire interest in the Gross Proceeds of Sale at Harvest of the lot.
- Annual Deferred Investment Option: You pay the Establishment Fee with the Application, and then elect, on an annual basis, not to pay ongoing Annual Fee and Rent. In making the decision not to pay the ongoing Annual Fee and Rent, you are effectively requesting TFS Properties to make these payments on your behalf. In exchange for making these payments, TFS Properties will receive the Annual Deferred Investment Option Fee, which is a percentage share of the Gross Proceeds of Sale at Harvest for each year in which you elect to defer payment.
- Significant tax deductions are available to Growers, supported by an Australian Tax Office Product Ruling. It is important to note that Growers who elect to collect their Sandalwood cannot rely on the ATO Product Ruling in respect of their Sandalwood Lots in the Project. Refer to page 18 of this PDS for further information in relation to the election to collect your own Sandalwood.

KEY INVESTMENT RISKS

An investment in the Project is subject to a number of specific and general risks including:

- Agricultural risks such as fire, pests and adverse weather conditions;
- Financial risks such as adverse fluctuations in the exchange rate, yield estimates, quality, increases in costs and unexpected expenditure;
- Market risks such as the effect of demand and supply forces, introduction of new technologies and limitations on transferring an investment;
- Regulatory risk such as unforeseen changes to the regulatory regime and risk of disallowance of the anticipated tax deductions; and
- Management risk such as loss of key personnel, decreases in MIS sales, insolvency of the Responsible Entity and working capital risk.

The above list of risks is not exhaustive. Further details regarding these and other relevant risks are set out in the 'Risks and Safeguards' section of this PDS on page 26.





AUSTRALIAN SECURITIES
AND INVESTMENT
COMMISSION
(ASIC) BENCHMARK
AND DISCLOSURE
PRINCIPLES

IN JANUARY 2012 ASIC RELEASED REGULATORY GUIDE 232 REQUIRING RESPONSIBLE ENTITIES OF AGRIBUSINESS SCHEMES TO INCLUDE BENCHMARKS AND DISCLOSURE PRINCIPLES FOR IMPROVED DISCLOSURE TO RETAIL INVESTORS TO HELP THEM UNDERSTAND AND ASSESS AGRIBUSINESS SCHEMES. IN THE SECTION BELOW TFS PROPERTIES ADDRESSES THESE BENCHMARK AND DISCLOSURE PRINCIPLES IN ORDER TO AID INVESTORS IN THEIR DECISION MAKING PROCESS.

BENCHMARK 1 – FEE STRUCTURE

Description: A scheme should be structured so that annual fees/contributions are paid by investors to the responsible entity which are sufficient to fund the operation of the agribusiness scheme for the relevant financial year or that upfront fees/contributions are paid by the investors to the responsible entity which are sufficient to fund the operation of the agribusiness scheme until the proceeds of sale of produce are available and these funds are held on trust for investors.

A scheme should be structured so that any up-front fees/contributions received by the responsible entity from investors in the scheme: are held separately from other assets of the responsible entity, are only available for the operation of the agribusiness scheme, are subject to annual audit and are only used by the responsible entity to meet any expenses that are incurred in the operation of the agribusiness scheme for the period for which they were provided.

TFS Properties and the Project do not satisfy Benchmark 1.

Explanation: TFS Properties charges fees including both upfront fees and annual fees. TFS Properties also charges deferred fees. TFS Properties provides fee payment structures designed to provide Growers flexibility when investing in the Project. Accordingly, if a Grower elects to defer certain fees, TFS Properties will pay these fees on behalf of the Grower which will entitle TFS Properties to a percentage of the proceeds of harvest. Please refer to the 'Fees and Other Costs' section beginning on page 37 of the PDS for details of Project fees and payment structures.

Set out below are the material risk factors associated with the fee structures in relation to the Project and the mechanisms that TFS Properties has adopted to address these risks:

- deferred payment of fees: there are certain fees set out in the 'Fees and Other Costs' (which begins on page 37 of this PDS) which may be deferred by Growers in return for certain percentages relating to the proceeds of harvest of a Grower. If a Grower does not elect to pay an Annual Fee, TFS Properties will pay these fees in return for a percentage of harvest proceeds. In these circumstances the Grower will receive a smaller return than had they elected to pay the Annual Fee. Also, TFS Properties will require funding to pay the operational fees on behalf of a Grower electing to defer such fees. TFS is a wholly owned subsidiary of TFS Corporation, an ASX listed company. As such TFS has

multiple avenues of funding through TFS Corporation. Please refer to the section entitled 'Access to Cash flows and Availability of Working Capital' on page 32 of this PDS for further details;

- Annual Fees insufficient: There is the risk that the Annual Fee from Growers equals an amount less than the actual costs of running the Project for the relevant financial year. In these circumstances, the Project may not be sufficiently funded for such a period. Lack of adequate funding for the Scheme from the Annual Fee may have a detrimental impact upon the size and quality of the produce ultimately harvested. It may in turn result in lower returns for Growers. TFS Properties is an experienced forestry managed investment scheme operator of 14 years and has set the Annual Fee for the Project taking into account current forestry practices, current and projected market rates for forestry service providers, specialist advice from forestry experts and advice from its experienced management team. The Annual Fee increases each year of the Project by 3% to account for inflation. Please refer to the section entitled 'Access to Cash flows and Availability of Working Capital' on page 32 of this PDS in relation to funding details of the Project and TFS Properties;
- working capital requirements for harvesting and processing: The Costs of Harvesting and Processing the Sandalwood Trees is expected to be funded from the proceeds received from the sale of the Forest Yield. Growers pay a fee, currently estimated to be \$1,333 (plus GST) per Sandalwood Lot, to cover these costs, which is deducted from their Gross Proceeds of Sale. As this fee is received by the Responsible Entity after the Harvesting and Processing of the logs, the Responsible Entity must ensure that it has sufficient working capital to meet the expenses associated with Harvesting and Processing the Sandalwood Trees. TFS Properties anticipates that it will have access to sufficient working capital to fund the Costs of Harvesting and Processing by virtue of:
 - finance for the Costs of Harvesting and Processing from the purchasers of the Sandalwood products – the TFS Group is working towards being an integrated producer of Sandalwood products and aims to have contractual arrangements in place for the purchase of the Sandalwood products prior to Harvest. It is standard industry practice that any such purchase arrangements will provide for the funding of Harvesting and Processing by the purchaser of the products; and
 - the Annual Fees received for the Project – these fees are the same in each year (subject to indexing at 3% per annum, and differences resulting from different numbers of Annual Fee deferrals in each year), and can potentially be available to assist with the harvesting and processing operations.

To the extent that the Costs of Harvesting and Processing cannot be met from the working capital sources outlined above, the TFS Group would rely on funding from other sources to meet these costs, to the extent that those sources are available. Whilst TFS Properties expects that the above funding sources will be sufficient to meet the Costs of Harvesting and Processing the Trees, TFS Properties cannot guarantee that it will have sufficient working capital to meet these costs.

TFS Properties considers that it charges fees that are sufficient to cover most of the expenses relating to, and operation of, the Project over its life cycle. Please refer to the section entitled 'Access to Cash flows and Availability of Working Capital' on page 32 of this PDS in relation to funding details of the Project and TFS Properties.

The Annual Fee is based on the reasonably expected costs of operating the Project. Fees are calculated based upon TFS Properties' 14 years experience operating agribusiness managed investment schemes focussing on Sandalwood. The Annual Fee will be charged 6 months in arrears and 6 months in advance on 1 January each year. The invoice for Annual Fee will set out the total amount to be paid and contain a detailed breakdown of the composition of the total fee.

If TFS Properties is replaced as the responsible entity of the Project, TFS Properties considers that, based on the fee structure in relation to the Project, the replacement Responsible Entity will be able to continue the Project. If TFS Properties is replaced as the Responsible Entity of the Project in the event of insolvency, the Replacement Responsible Entity may require that Growers cannot elect the Annual Deferred Investment Option going forward so as to enable the Project to receive more ongoing funding from the Growers instead of the Replacement Responsible Entity.

The Project is structured such that any fees received by the responsible entity from investors in the Project are held separately from other assets of TFS Properties. Such funds are only available for the operation of the agribusiness scheme, are subject to annual audit and are only used by the responsible entity to meet any expenses that are incurred in the operation of the agribusiness scheme for the period for which they were provided.

BENCHMARK 2 – OWNERSHIP OF INTERESTS IN THE AGRIBUSINESS SCHEME

Description: The responsible entity and its related parties should own less than 5% in aggregate by value of the interest in the agribusiness scheme (except for any interests acquired through the default of a member in the agribusiness scheme).

TFS Properties satisfies Benchmark 2.

Explanation: TFS Properties will not apply for Sandalwood Lots in the Project.

BENCHMARK 3 – ANNUAL REPORTING TO INVESTORS

Description: The responsible entity should provide members of the scheme with a report at least annually that contains relevant scheme-specific information.

TFS Properties satisfies Benchmark 3.

Explanation: TFS Properties will prepare audited accounts for the Project annually and provides these to Growers directly as well as posting them on the TFS Corporation website. Further to this, TFS Properties provides an annual

newsletter to Growers to update them about the operations of TFS Properties. TFS Properties will ensure that Grower communication documents will include timely and relevant disclosure of information that is recommended for disclosure by relevant ASIC regulatory material. This will include disclosure on the level of actual and proposed gearing of against assets of the Project granted as security including the risks associated with the gearing.

BENCHMARK 4 – EXPERTS

Description: Where the responsible entity engages an expert to provide a professional or expert opinion on the agribusiness scheme, and the expert opinion is disclosed to retail investors in a way that may lead them to place reliance on the expert's expertise, the responsible entity only engages an expert who is independent.

TFS Properties satisfies Benchmark 4.

Explanation: This PDS contains two experts report comprising the Expert Foresters Report prepared by Kimber Environment Services and the Expert Sandalwood Marketing Report prepared by H.S. Anantha Padmanabha. The reports are set out on pages 60 and 66 of this PDS respectively. Both experts are independent of TFS Properties, are independent of the Project and hold relevant qualifications and credentials to their respective fields of expertise. Please see page 60 and 66 of this PDS respectively for details of each expert's qualifications and credentials.

BENCHMARK 5 – APPOINTING AND MONITORING SERVICE PROVIDERS

Description: The responsible entity only engages key service providers (whether directly or indirectly on behalf of the agribusiness scheme investors) necessary for the operation of agribusiness scheme where:

- the engagement is subject to a written agreement approved by the board of the responsible entity in accordance with a documented policy;
- the agreement is subject to annual review against set performance criteria or measures; and
- the agreement is subject to certification by the board, at the time each agreement is entered into, that the agreement is on an arm's length basis.

TFS Properties does not satisfy Benchmark 5 as this benchmark is not applicable to the Schemes operations.

Explanation: Benchmark 5 is not applicable as TFS Properties does not engage any external service providers to provide key services in relation to the Project. All key services required for the Project are provided within the TFS Group by TFS, an entity related to TFS Properties, All key services are provided by TFS pursuant to the Plantation Management Agreement summarised on page 83 of this PDS.

TFS is an experienced manager of Indian Sandalwood plantations and currently manages Sandalwood plantations across northern Australia covering a total area of around 6,500 hectares. TFS has qualified professional staff with

experience in all relevant disciplines. Please see page 52 of this PDS for further information on TFS.

TFS's operations are subject to extensive review and monitoring within the TFS Group including the following:

- Key performance indicators have been set for all managers employed in TFS' forestry operations, these key performance indicators are assessed regularly with budget indicators assessed on a quarterly basis by the General Manager of Operations; and
- The General Manager of Operations reports to the Board each Board meeting on the current status and progress of TFS' forestry operations.

DISCLOSURE PRINCIPLE 1 – INVESTOR FINANCING ARRANGEMENTS

Description: If the responsible entity or a related party is providing finance, or expects to receive payment for arranging finance, for investors in the agribusiness scheme to fund an investment into the scheme, the responsible entity should clearly and prominently disclose in the PDS:

- the details of the financier;
- any amounts paid to the responsible entity or related party in relation to the finance;
- that the investor should obtain and read the finance agreement before entering into the finance facility; and
- unless the proposed finance facility is non-recourse, that the investor will remain liable to repay the amount lent or made available under the finance agreement should the scheme fail.

The responsible entity should also ensure that, as far as practicable, investors receive a copy of the finance agreement before entering into the finance facility.

TFS Properties and this PDS satisfy Disclosure Principle 1.

Explanation: Refer to page 41 of this PDS for disclosures on financing arrangements that meet Disclosure Principle 1.

DISCLOSURE PRINCIPLE 2 – TRACK RECORD OF THE RESPONSIBLE ENTITY

Description: The responsible entity of an agribusiness scheme should disclose the experience and resources it has available to operate the agribusiness scheme and the agribusiness enterprise.

Where the responsible entity has operated other agribusiness schemes, it should disclose:

- the number of agribusiness schemes it currently operates;
- the types of agribusiness scheme being operated;
- the period of time that it has been operating the agribusiness schemes; and
- whether any of the agribusiness schemes operated by the responsible entity have produced, or are producing, positive returns net of contributions of the investors in those agribusiness schemes.

TFS Properties and this PDS satisfy Disclosure Principle 2.

Explanation: Refer to the section 'Financial information relating to the Responsible Entity' and the section 'The TFS Group' on pages 31 of this PDS respectively in relation to details of TFS Properties' resources it has to available to operate the Project and the agribusiness enterprise.

Refer to the sections 'Key Investment Features' and 'The TFS Group' on pages 05 and 50 of this PDS for disclosures on TFS Prosperities' experience, and the TFS Group's experience, in operating agribusiness schemes.

DISCLOSURE PRINCIPLE 3 – RESPONSIBLE ENTITY'S FINANCIAL POSITION

Description: The responsible entity should disclose:

- a summary of its financial position in any PDS, including details of any known unfunded obligations in respect of the schemes it operates;
- if it, is reliant on funding from external or related parties to perform the functions and obligations to members in relation to the agribusiness scheme, has entered into guarantees or indemnities with external or related parties or is a member of a tax consolidation group;
- the measures it has in place to address the risks arising out of these arrangements to its financial position and its ability to meet its obligations in relation to the agribusiness scheme;
- if the responsible entity is reliant on funding from external or related parties to perform its functions and fulfil its obligations in relation to the agribusiness scheme, it should disclose the extent of the reliance;
- if the responsible entity has entered into any guarantee or indemnity with external or related parties, it should explain, what each guarantee or indemnity is, including the names of the parties to the guarantee and the potential implications of entering into these arrangements on the financial position of the responsible entity if the other parties are unable to meet their obligations; and
- if the responsible entity is a member of a tax consolidation group, it should disclose details of whether a tax-sharing agreement is in place and the parties to the tax-sharing agreement and if no tax-sharing agreement is in place, the potential implications of not having this.

TFS Properties and this PDS satisfy Disclosure Principle 3.

Explanation: Refer to the section 'Financial Information relating to the Responsible Entity' on page 31 of this PDS in relation to disclosure in respect of the matters referred to above.

DISCLOSURE PRINCIPLE 4 – LAND, LICENSES AND WATER

Description: The responsible entity should disclose:

- the arrangements entered into to secure rights of access or tenure to the resources and infrastructure required to operate the agribusiness scheme, including any land, licences or leases, and water required, and whether these arrangements provide for access for the life of the agribusiness scheme and are entered into on an arm's length basis;
- in relation to (a) above, the risks associated with these arrangements, the consequences of a failure by the responsible entity to pay amounts due under these arrangements, and any breaches of these arrangements or agreements underlying these arrangements and any measures the responsible entity has implemented, or will implement, to address these risks;
- the identity, where known, of the owner of the resources and infrastructure referred to in (a) above, the terms of use and whether security has been given over these assets;
- for any leases, licences, rights or infrastructure required for the operation of the agribusiness scheme, the following, whether the responsible entity treats the leases and licences or rights as scheme property, the identity of the parties to the leases, licences and/or rights and whether any action in relation to a lease, licence or right needed for the operation of the agribusiness scheme, which is not an obligation of the responsible entity, could endanger the relevant lease, licence or right. Disclosure should clarify the risk of this occurring and how it may affect the agribusiness scheme; and
- if land, licences or water assets are, or are proposed to be, used as security for borrowings by the responsible entity, the responsible entity should disclose the level of actual or proposed gearing, and the risks associated with this gearing, in the PDS and in the report provided to members under Benchmark 3.

TFS Properties and this PDS do not satisfy all of the disclosure requirements required by Disclosure Principle 4.

Explanation: Refer to the 'Indian Sandalwood Plantation' section on page 19 of this PDS for specific disclosures in relation to land and water infrastructure.

DISCLOSURE PRINCIPLE 5 – REPLACEMENT OF THE RESPONSIBLE ENTITY

Description: The responsible entity should disclose:

- whether there are any restrictions on the ability of any replacement responsible entity to access the resources required to continue to operate the agribusiness scheme (including but not limited to any leases, licences, land, water and money held for the purposes of operating the scheme);
- whether the responsible entity or related parties are eligible for any payment or fee that is payable if the responsible entity is replaced, or is to be replaced, and, if so, the amount or method for calculation of this fee;
- the effect of a change in responsible entity on any agreements entered into between investors and the responsible entity or other parties in relation to the agribusiness scheme;
- any obligation to repay fees already paid to the responsible entity to the incoming responsible entity if the responsible entity changes; and
- the risk to, and impact on, investors if the responsible entity changes.

TFS Properties and this PDS satisfy Disclosure Principle 5.

Explanation: Refer to the 'Project Details' section on page 15 of this PDS for disclosures that meet Disclosure Principle 5.

WHY INDIAN SANDALWOOD?

INDIAN SANDALWOOD IS THE MOST VALUABLE SPECIES OF SANDALWOOD (*SANTALUM ALBUM*) IN THE WORLD, ACHIEVING OVER \$100,000 PER TONNE OF HEARTWOOD. THIS TROPICAL HARDWOOD HAS BEEN USED FOR THOUSANDS OF YEARS IN PERFUMES, RELIGIOUS CEREMONIES, RELIGIOUS ARTEFACTS, INCENSE, TRADITIONAL MEDICINES, CARVINGS AND ELITE FURNISHINGS

WHAT IS HEARTWOOD?

Heartwood is found at the core of the tree. It is yellow brown to red in colour and it contains the Sandalwood oil, which gives the product its value either as timber or as oil.

Oil is extracted from the heartwood through a process of distillation. This highly valued oil trades for more than \$2,500 per kilogram.

The value of heartwood is largely determined by the quantity and quality of the oil it contains. Indian Sandalwood is considered to be the premium species of Sandalwood because it has the highest oil yield and the oil has the greatest concentration of the valuable constituent alpha and beta Santalols.

AUSTRALIAN OR INDIAN?

Indian Sandalwood (*Santalum album*) and Australian Sandalwood (*Santalum spicatum*) have very different properties, characteristics and markets. These differences are reflected in value, with Australian Sandalwood selling for about \$14,500 per tonne as compared to Indian Sandalwood heartwood which has sold for more than \$100,000 per tonne.

The global supply of wild Indian Sandalwood is decreasing due to poaching and over-harvest. Differences in growth rate also make Indian Sandalwood the preferred species for TFS. As a tropical hardwood Indian Sandalwood will grow to Harvest in 14 – 16 years under irrigation, whereas the Australian species is a slow-growing tree suited to an arid climate.

Indian Sandalwood oil has almost three times the alpha and beta Santalols (valuable constituents found within Sandalwood oil) than the Australian Sandalwood variety. Heartwood from mature Indian Sandalwood trees also has around two times the oil content of wild Australian Sandalwood trees.

The higher value heartwood, fast-growing characteristics and supply-demand imbalance are reasons why TFS chooses to grow Indian Sandalwood.





THE SANDALWOOD MARKET – SUPPLY AND DEMAND

DWINDLING WILD SUPPLIES AND INCREASING DEMAND CENTRED ON THE INCREASINGLY PROSPEROUS ASIAN NATIONS PRODUCE EXCITING MARKET DYNAMICS FOR THIS ANCIENT INGREDIENT. SANDALWOOD FEATURES IN INCENSE, PERFUME, CARVINGS, MEDICINES, FASHION, FURNISHINGS AND RELIGIOUS CEREMONIES AROUND THE GLOBE.

There is a significant amount of information about Sandalwood contained in the Expert Forester's and Expert Market Reports contained in this PDS. These reports should be read in conjunction with the following information.

ESTABLISHED DEMAND

The popularity of Sandalwood is seen in the wide range of countries that import the wood and oil. Sandalwood and Sandalwood oil is currently imported by the Middle East, Japan, China, Taiwan, Hong Kong, Singapore, Germany, Switzerland, France, Australia, the UK and the USA. Trade statistics show that Taiwan alone imported over 2,800 tonnes of Sandalwood wood in 2011. The USA imported 33,300 kilograms of Sandalwood oil in the same year.

Strong demand for oil in the USA and Europe is driven by the fragrance industry, where Sandalwood oil remains an important ingredient in fragrant soaps, toiletries and perfumes. It is in the Asian markets, however, that Sandalwood has the most cultural significance.

India, Taiwan and China remain significant consumers of Sandalwood globally. China was historically a major importer of Sandalwood and since the times of the ancient Silk Road has been its preferred species. Since the end of import restrictions in 1999 Chinese demand for Sandalwood is reported to have grown significantly. It is expected that these changed regulations, the increasing wealth of China (population 1.34-billion people – 2011 est.) and a subtle return toward traditional values could continue to increase the Chinese demand for Indian Sandalwood.

Dwindling domestic supplies of the species are also expected to drive India to import significant volumes of wood. In 2005 alone over 2,000 tonnes of Sandalwood was imported to supplement Indian demand. While the import of Sandalwood Product is restricted in India, this restriction is expected to be lifted as the domestic supply continues to drop.

Demand for the heartwood of Indian Sandalwood is linked to but not dependant on the demand for Indian Sandalwood oil. As the oil is made up of a large number of different molecules, it is extremely difficult to match these in a synthetic substitute. In any case there are ISO standard tests for Indian Sandalwood oil which limits any serious purchaser's ability to be defrauded by synthetic imitations.

Despite the efforts of the synthetics industry, commentators estimate that the natural cosmetic market is growing at a rate of 10% – 15% per annum, driven by consumer demand for natural ingredients. The unique properties of Indian sandalwood oil and the growing trend towards natural products suggest that demand for the natural oil will remain high and this demand will increase competitive tension between Indian Sandalwood wood and oil.

The competitive tension developing between consumption of Sandalwood Heartwood as a wood product and as

an oil product coupled with a sustainable supply of Indian Sandalwood from TFS is expected to stimulate global demand for Indian Sandalwood. In addition, in China and India the growing wealth and the return to traditional values and customs are coinciding. This coincidence is expected to increase, rather than to simply restore, the demand for this traditionally valued product.

DWINDLING SUPPLY

Supply of Indian Sandalwood has reached critical levels in India (around 95% of the total annual Indian Sandalwood supply comes from India), with the tree recognised as a vulnerable species on the International Union for Conservation of Nature and Natural Resources (IUCN) Threatened Species Red list.

Wild sources and government stockpiles are expected to be even lower than current levels by the time the plantation wood grown by TFS is ready for the market. Supply from Indonesia and East Timor have dramatically diminished over recent years.

There is now a growing demand for a sustainable source of Indian Sandalwood, with plantation-grown trees offering an important alternative to the traditional wild sources.

While dwindling supply has resulted in some substitution with other aromatic woods, Indian Sandalwood still offers superior characteristics, making these substitutes inferior. It is expected that when a reliable supply of Indian Sandalwood is available this substitution will decrease and consumption of Indian Sandalwood will increase.

Australian Sandalwood (*Santalum spicatum*) is inferior to Indian Sandalwood (*Santalum album*) in terms of oil composition, fragrance, growth regime, and price. Consequently, the two species have very different primary markets, and are distinctive products, particularly in regards to heartwood and oil value. Another substitute used in India is the *Osyris* species. The *Osyris* species is now facing deforestation in Africa, threatening the long-term supply of the wood.

AUCTION PRICE

The price of Indian Sandalwood has continued to increase at a compounded rate of 16.7% over the last 20 years. At the auction held in March 2011 small volumes of wild heartwood were sold for an average price of approximately \$112,000 per tonne*.

Due to the decline in the supply of Indian Sandalwood in India, only small quantities of heartwood have been sold at recent auctions. Consistent price growth has been the result of the growing imbalance between the supply and demand for Indian Sandalwood that characterises this market. The decline in the supply is in part due to legal constraints on supply imposed by Indian authorities, this means that a large proportion of wild harvested Indian Sandalwood sales occur on the black market, therefore prices of these sales are not recorded publically.

It should be noted that the price of heartwood from Indian auctions relate to mature wild sourced trees. These do not necessarily reflect anticipated prices for 14 – 16 year old plantation sourced heartwood.

*Please refer to page 01 of this PDS for details of the underlying exchange rates.



PROJECT DETAILS

TFS MANAGES THE WORLD'S LARGEST INDIAN SANDALWOOD PLANTATION. WITH AROUND 6,500 HECTARES ESTABLISHED, 14 YEARS EXPERIENCE AND A LARGE TEAM OF HIGHLY QUALIFIED STAFF, TFS IS A SPECIALIST IN INDIAN SANDALWOOD PLANTATION MANAGEMENT.

WHAT ARE WE OFFERING?

The TFS Sandalwood Project 2013 gives you the opportunity to grow your own Indian Sandalwood, a wood with strong demand and diminishing supply.

The average auction price for wild heartwood in the Indian auctions of Tamil Nadu and Kerala has risen from \$5,100 per tonne in 1990/1991 to approximately \$112,000 per tonne in March 2011 (on small volumes). The current price represents an annual compounded growth rate of 16.7% over 20 years.

It should be noted that the price of heartwood from Indian auctions relate to mature wild sourced trees. These do not necessarily reflect anticipated prices for 14 – 16 year old plantation sourced heartwood.

Due to the decline in the supply of Indian Sandalwood in India, only small quantities of heartwood have been sold at recent auctions. Consistent price growth has been the result of the growing imbalance between the supply and demand for Indian Sandalwood that characterises this market. The decline in the supply is in part due to legal constraints on supply imposed by Indian authorities, this means that a large proportion of wild harvested Indian Sandalwood sales occur on the black market, therefore prices of these sales are not recorded publically.

A diminishing supply, coupled with Sandalwood's important role in Indian and other Asian cultures is expected to ensure that demand remains high and the upward price pressure continues. It should be noted that the TFS market expert Mr Anantha Padmanabha is of the opinion that these prices will continue to rise at the rate of at least 5% per annum for the foreseeable future. See his report on page 66 of this PDS.

HOW DOES THE PROJECT WORK?

TFS Properties invites you to invest in the TFS Sandalwood Project 2013 (the 'Project'). TFS Properties is the issuer of this Product Disclosure Statement ('PDS') and of interests in the Project (called 'Sandalwood Lots' within this PDS).

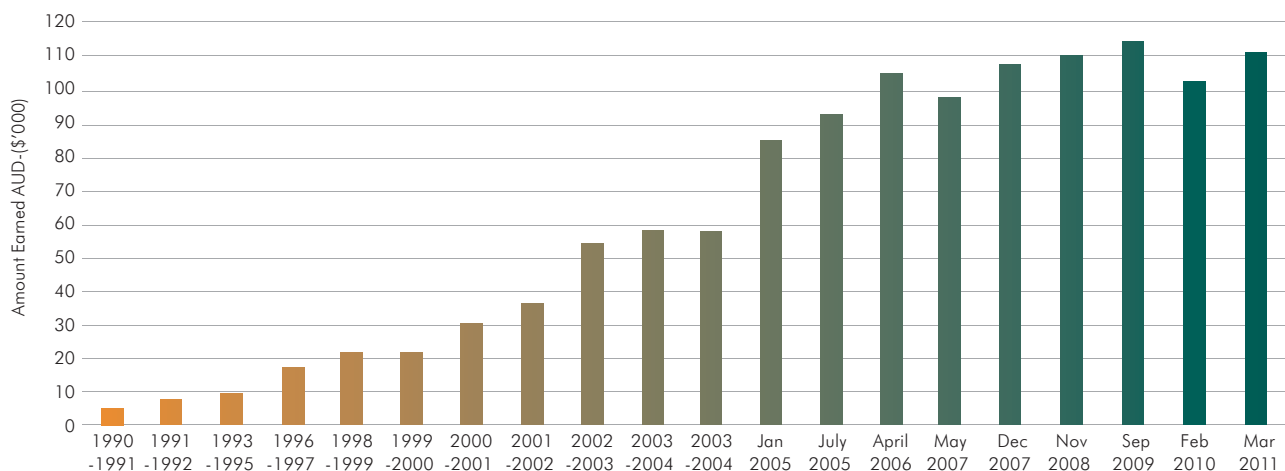
The Project consists of up to 4,800 Sandalwood Lots of one twelfth of a hectare each and any oversubscriptions.

There is no minimum subscription to the Project.

As a Grower you will establish and maintain your own stand of Indian Sandalwood by:

- Sub-leasing one or more land parcels from the Lessor (TFS Leasing Pty Ltd). Each land parcel is one twelfth of a hectare. Each Sandalwood Lot will be identifiable by reference numbers on a plan of the Plantation. This plan will be forwarded to you once your Sandalwood Lots are planted.
- Engaging TFS Properties (the Responsible Entity) to establish and maintain a Plantation on the Sandalwood Lot. TFS Properties will in turn appoint TFS to manage the Sandalwood Lot together with all other Growers' Sandalwood Lots for the Project as one commercially viable plantation. This engagement continues until all of the Indian Sandalwood has been Harvested.
- Engaging TFS to supervise the Harvest of the Indian Sandalwood from the Sandalwood Lot, as well as the Processing of the Sandalwood into Cleaned Logs and their transport to Store. The Harvest is expected to take place during Year 14 to 16 after Establishment (although this may vary dependent upon TFS' assessment of heartwood and oil yields).
- Engaging TFS Properties to market and sell the Grower's Interest in the Sandalwood for the maximum price obtainable, unless you elect to collect the Sandalwood for your own purposes (refer to page 18 of this PDS for further information in relation to the election to collect your own Sandalwood). Grower's who elect to collect their own Sandalwood cannot rely on the ATO Product Ruling in respect of their Sandalwood Lots in the Project.

Sandalwood Auctions in India: Price Trend (Average)



HOW WILL THE SANDALWOOD BE PLANTED?

Sandalwood needs host trees to help it to grow. As a hemi-parasitic tree, the roots of the Sandalwood tree attach to the roots of the host by means of haustoria to draw nutrients, water and some metabolites.

Over the course of its life each Sandalwood tree needs a selection of host trees. Host trees are planted in configuration with the Sandalwood seedlings within 18 months of the acceptance of a Grower's Application.

Tree counts are conducted regularly. The project has a targeted survival rate of at least 420 Sandalwood trees per hectare at Harvest.

As set out on page 60 of this PDS in the Expert Forester's Report, the Responsible Entity will retain the Seeds from the Trees for the purpose of ensuring that there is enough seed for this Project and to stockpile for future use by the Responsible Entity.

HOW WILL THE SANDALWOOD BE MAINTAINED?

The Plantation will be maintained by the Manager in accordance with a comprehensive Management Plan. Annual maintenance will include weeding and pruning, nutrient analysis to determine fertiliser requirements, fire control management, inventory measurement and regular reporting.

HOW WILL THE SANDALWOOD BE HARVESTED?

The heartwood is contained within the larger branches, log, roots and butt of the Sandalwood Tree. The butt and roots contain up to one-third of the heartwood. Harvest methods are being developed to maximise the recovery of this valuable resource.

TFS Properties anticipates that the Harvest of the Sandalwood will occur in Year 14 to 16 after Establishment. The precise timing of the Harvest will be determined by forestry management criteria, the aim being to maximise the revenue generated by the Project.

Returns to Non-Electing Growers will be paid when Gross Proceeds of Sale are received after each Harvest.

HOW WILL THE SANDALWOOD BE SOLD?

At the time of Harvest, TFS Properties will determine the most profitable and appropriate markets for the product. It is expected that the wood will be sold as Cleaned Logs. For more information on the demand for Indian Sandalwood please refer to the Expert Market Report on page 66 of this PDS. Any proceeds of sale from the wood will be distributed to you after a deduction of the Costs of Harvesting and Processing, and any additional costs associated with the Selling and Marketing Fee. Updates on marketing trends and changes to the marketing plan will be communicated to Growers via a regular newsletter.

Under the Lease and Management Agreement, the Responsible Entity may purchase the product from Growers provided that certain conditions are met, including that the sale price represents a reasonable and fair market price, and that the terms on which the Responsible Entity purchases the product are no less favourable than the terms of any competing offer.

Further, the Responsible Entity (or its nominee) shall have the right to match the terms of purchase offered pursuant to a competing third party offer, and to acquire the Forest Produce on terms no less favourable to Growers as those offered under the competing third party offer.

WHAT IF THERE IS DAMAGE TO THE PLANTATION OR TREES ON SANDALWOOD LOTS?

If the Trees on a Sandalwood Lot are wholly destroyed, the Grower's interest in the Sandalwood Lot will cease, and the Lease and Management Agreement will terminate in relation to the Grower, with effect from the time of the event causing the destruction or damage. For Growers electing to participate in the Project on the Annual Investment Option basis, the requirement to pay the ongoing Annual Fee and Rent will also cease from the time of the total destruction event.

If the Upfront Annual Fee and Upfront Rent has not been applied, in whole or in part, by resolution of the growers prior to the Trees on a Sandalwood Lot being wholly destroyed then the Upfront Annual Fee and Upfront Rent will be reimbursed to the Grower.

Growers electing to participate in the Project on the Annual Deferred Investment Option basis will be required to pay 55% of the ongoing Annual Fee and Rent for years prior to the total destruction event that would have been paid had you elected to participate in the Project on an Annual Investment Option basis.

If the Trees on a Sandalwood Lot are partially destroyed, the Grower's interest in the Sandalwood Lot will be reduced according to the proportion of the area that has been destroyed. The Fees will also be reduced proportionally (although Rent will not vary). The proportion or area destroyed will be determined by an independent expert appointed by TFS Properties.

TFS may be able to arrange insurance annually on your behalf to cover the risk of occurrence of a destruction event. Please refer to the 'Additional Information' section of this PDS for further details on insurance.

CARBON CREDITS

Under the Lease and Management Agreement the Grower agrees to transfer all of the Carbon Credits to which they are entitled to the Responsible Entity.

ELECTION TO COLLECT SANDALWOOD

You can elect to collect your Sandalwood from your Sandalwood Lot by nominating this option on your Application Form. If this is the case, you will not benefit from the economies of scale which may be achieved by pooling the Sandalwood from the whole of the Plantation and marketing and selling it on a collective basis with other Growers' Sandalwood. It is also important to note that Growers who elect to collect their Sandalwood cannot rely on the ATO Product Ruling in respect of their Sandalwood Lots in the Project.

When you elect to collect your own Sandalwood:

- TFS Properties will advise you in writing of the time and place at which it can be collected;
- you will be required to pay your share of the Costs of Harvesting and Processing on (or before) collecting your Sandalwood;
- you will be responsible for your own transport and marketing costs;
- you will be required to pay any outstanding Fees including the Annual Fee and Rent whether partially paid or not; and
- you will also be required to pay TFS Properties' estimate of your share of the Incentive Fee (if applicable), subject to adjustment on completion of Harvest, when the actual amount of the Fees payable has been determined.

REPLACEMENT OF RESPONSIBLE ENTITY

If TFS Properties is replaced as the responsible entity of the Project there are no restrictions on the replacement responsible entity accessing the resources required to operate the Project other than:

- funding for the expenses incurred on behalf of Growers electing the Deferred Investment Option; and
- funding required for harvesting and marketing costs (which funding entitles the responsible entity to a portion of the proceeds of harvest).

In relation to agreements entered into by TFS Properties as the responsible entity of the Project these agreements will have effect as if the new responsible entity was a party to it, were referred to in it or had or might have acquired the right obligation or liability under it (pursuant to section 601FT of the Corporations Act).

Under each Lease and Management Agreement, a Grower may terminate the agreement if the Responsible Entity is removed as the responsible entity under the Constitution. There are no payments or fees that are payable to a member of the TFS Group that are triggered if TFS Properties is replaced as the responsible entity of the Project.

If TFS Properties is replaced as the responsible entity of the Project, there is no obligation on TFS Properties to repay fees already paid to it to the replacement responsible entity. If TFS Properties is replaced as the responsible entity of the Project, it will endeavour to repay all fees paid to it to the replacement responsible entity except for fees and expenses it is entitled to pursuant to section 601 FS(2) of the Corporations Act (which includes fees paid for the performance of its functions before it ceased to be the responsible entity and funds paid for reimbursement of expenses it incurred before it ceased to be the responsible entity).

If TFS Properties is replaced as the responsible entity of the Project in the event of insolvency, the Replacement Responsible Entity may require that Growers cannot elect the Annual Deferred Investment Option going forward. This means each Grower will be required to pay the Annual Fee to the Replacement Responsible Entity going forward.

The risks to investors if TFS Properties is replaced as the responsible entity of the Scheme are:

- funding of the replacement responsible entity – if the replacement responsible entity does not have the requisite funding to fund the Project as needed (i.e. to fund operating costs on behalf of Growers that have elected for the Deferred Investment Option), then this will have a detrimental effect on the management of the Project and in turn may effect Growers returns; and
- experience of the replacement responsible entity – a replacement responsible entity may not have the requisite experience in managing a scheme of this type which may have detrimental effect on the management of the Project and in turn may effect Growers returns.

To mitigate these risks, each Grower is required to pay one year's Annual Fee upfront (or borrower that amount from Arwon Finance) which shall be deposited by TFS into a trust account maintained by the Independent Custodian. This process is set up to ensure that there are some funds in reserve and available to meet the ongoing costs of the Project. In the event that the Responsible Entity becomes insolvent and therefore unable to pay for the Ongoing Services in that year of the Project, Growers may pass a resolution directing the Responsible Entity to instruct the Independent Custodian to release the Upfront Annual Fee and apply it in satisfaction of the outstanding Annual Fee for the following year of the Project. If Growers have not resolved to direct the Independent Custodian to release the Upfront Annual Fee by the commencement of Year 14 of the Project, the Upfront Annual Fee will be applied in satisfaction of the Annual Fee payable in Year 14 of the Project.



THE INDIAN
SANDALWOOD
PLANTATION

THE LAND THAT HAS BEEN IDENTIFIED FOR THIS PROJECT MAY BE SOURCED FROM ACROSS TROPICAL NORTHERN AUSTRALIA. IT UNIQUELY SATISFIES ALL OF THE REQUIREMENTS FOR THE GROWTH OF INDIAN SANDALWOOD AND IS IDEAL BECAUSE OF THE AVAILABILITY OF WATER FOR IRRIGATION.

GROWING CONSIDERATIONS

In order to grow Indian Sandalwood successfully in Australia the following growing conditions must be met:

- a tropical climate;
- access to water supplies;
- free-draining soils;
- land which has a flat to undulating topography and is not subject to water-logging; and
- not in a high risk cyclone zone.

The Plantation will be established on land which satisfies all of the above requirements.

Soils are selected on the advice of experts who assess soil depth, chemical and physical characteristics. The land is flat and has access to abundant irrigation water resources. This land is capable of being farmed.

Please refer to Expert Foresters Report on page 60 of this PDS for additional information.

WHERE WILL THE PLANTATION BE LOCATED?

TFS Properties has a significant land bank suited to the growth of Indian Sandalwood. TFS Properties is currently engaged in further freehold and leasehold land acquisitions near the town of Kununurra in Western Australia, within the Burdekin region of Northern Queensland, and in the Northern Territory. Any land acquired or used will be subject to the land acquisition due diligence protocols TFS currently has in place. Planting will take place during the dry season (usually May and June) and the land will be subject to an intensive preparation program during the preceding dry season.

LAND ACQUISITION DUE DILIGENCE

TFS has a formal and stringent Land Acquisition Due Diligence (LADD) procedure that is used to identify and evaluate different land opportunities across Australia.

Over the past four years TFS has studied the effect that different inherent soil properties have on the health and vigour of Indian Sandalwood plantations. TFS now has a prescription of ideal soil properties that is central to our land acquisition due diligence processes. All potential areas undergo rigorous soil profile testing across the site and the results are then interpreted against our known soil parameters. Any areas falling outside what we consider to be optimal conditions will be quarantined or discarded from consideration.

TFS also evaluates a suite of climatic parameters to consider site suitability such as susceptibility to cyclone scale winds and likelihood of severe frosts.

As TFS cultivates Indian Sandalwood under an irrigated regime, we also evaluate the potential land location in terms of both physical and regulatory availability of water for irrigation. It is essential that each area has access to high quality secure water sources that can be used for irrigation for the life of the Project.

Underlying these due diligence considerations is the proximity to the current three operational centres in Kununurra, Western Australia, Katherine, Northern Territory and Ayr, Queensland. TFS now has trained and qualified staff as well as a host of necessary infrastructure and assets to plant and manage ongoing plantations in these areas.

Once a site has been deemed appropriate for the establishment of an Indian sandalwood plantation, TFS also initiates a comprehensive legal due diligence process. This process evaluates all local, state and federal obligations in relations to both the acquisition and development proposal. This would include but not be limited to tenure, encumbrances, native title and heritage considerations, local council approvals and legal access to all potential land acquisitions.

LAND INFRASTRUCTURE

The Project will be operated over land owned by TFS Properties, a wholly owned subsidiary of TFS Corporation, and land leased by TFS Leasing from unrelated third parties.

All leases between TFS Leasing and unrelated third parties are on arms length terms. All leases between TFS Leasing and Growers are on terms customary for an agreement of this nature and for the purpose of commercial silviculture of Sandalwood trees. TFS Leasing will ensure that before a Lease and Management Agreement is entered into that the commercial silviculture of Sandalwood trees is a permitted use of the land under any relevant agreement or law.

Sandalwood Lots (on land owned by TFS Leasing or leased from third parties) will be sub-leased to Growers from TFS Leasing under a Lease and Management Agreement, the terms of which are summarised on page 78 of this PDS.

All leases from TFS Leasing to Growers will be continuing until the earlier of:

- the date the Scheme is terminated pursuant to the Constitution;
- the Project is harvested and or marketed and the Growers receive their portion of the collectable produce or the net proceeds of harvest (as relevant) (less any payments payable to the responsible entity under the constituent documents of the Scheme); or
- the Lease and Management Agreement is terminated in accordance with its terms.

TFS Properties currently has access to a land bank of approximately 3,500 hectares located across Australia. As the size of the Project will not be known until all applications for Sandalwood Lots have been received, TFS Properties is unable to confirm as at the date of this PDS which land from its land bank will be used for the Project. Also, TFS Leasing may acquire additional land after the date of this PDS (whether by purchaser or under a lease) that may ultimately be allocated for use in the Project. In any event the TFS Group will ensure that in relation to land for use in the Project:

- it will be acquired on arm's length terms;
- it will be available for the life of the Project; and
- it will not be subject to security other than under a mortgage or debt facility.

As at the date of this PDS:

- the TFS Group is not aware of any breaches of potential breaches of the land arrangements in place with land the TFS Properties has access to through its land bank; and
- the TFS Group is not aware of, in relation to current leases with unrelated third parties for land to be used in schemes (not currently allocated to another scheme) any actions needed for the operation of the agribusiness scheme of the Project, which is not an obligation of the responsible entity and which could endanger the relevant lease.

The main risks associated with land arrangements in relation to land infrastructure for the Project and the measures adopted by TFS Properties to address these risks are set out below:

- secured land – if land used in the Project is subject to a security (whether owned by TFS or a third party) then any failure by the registered holder of the land to comply with its obligations the basis for which the security was granted, is subject to the risk that it could lead to the security holder taking possession of the land. TFS Properties will ensure that Growers interests are protected in the land the subject of the Sandalwood Lots by lodging relevant leases against the title of the land with the relevant government departments; and
- land unsuitable for commercial silviculture of Sandalwood trees – there is the risk that the land allocated for the Project is unsuitable for commercial silviculture of Sandalwood trees, which in turn would otherwise reduce Growers returns. As set out above the TFS Group undertakes rigorous due diligence enquires as to its suitability for the commercial silviculture of Sandalwood trees before acquiring it and then allocating it for use in a Scheme.

In relation to land used in the Project that is owned by TFS Properties, as it is leased to the Growers direct, the TFS Group is not liable to pay any amounts in relation to such land other than rates and taxes. In relation to such land, there is no amounts payable by TFS Properties in relation to the use of this Land in the Project unless the Grower does not elect to pay the annual payment of Rent, in which case TFS Properties will fund the relevant payments on behalf of the Grower in return for a percentage of the proceeds of harvest (less any payments payable to the responsible entity under the constituent documents of the Scheme).

In relation to any land used in the Project that is owned by unrelated third parties it is leased to TFS Leasing and then sub-leased to Growers under the Lease and Management Agreements. The consequences of a failure by TFS Leasing to pay amounts due under the land arrangements with unrelated third parties may result in a default of the relevant lease agreement and ultimately termination. The TFS Group manages this risk by seeking to negotiate for each lease that it has limited termination rights and includes dispute resolution mechanisms. The TFS Group has processes in place to ensure that any leases with third parties are correctly administered in accordance with its terms.

WATER INFRASTRUCTURE

Depending on the ultimate size of the Project, the Project may have Sandalwood Lots established in the following areas:

- in the Kununurra region in Western Australia;
- in the Burdekin region in Northern Queensland;
- and in the Katherine and Douglas Daly region in the Northern Territory.

The Project will access water in the proposed establishment areas as follows:

- Kununurra region in Western Australia – water supply and infrastructure in this area is provided through the Ord River Irrigation Co-operative (Co-operative) of which TFS Properties is a member and holds shares in the Co-operative. As a member TFS Properties is entitled to certain annual water usage volumes. Fixed charges and volumetric charges are payable for the ongoing water usage and infrastructure provided by the Co-operative. The arrangement is on arms length terms;
- Burdekin region in Northern Queensland – water supply and infrastructure in this area is provided by SunWater. Fixed charges and volumetric charges are payable for the ongoing water usage and infrastructure provided by SunWater. The arrangement is on arms length terms; and
- Northern Territory – water infrastructure in this area is provided through bores owned and maintained by TFS Properties on TFS Properties owned land and water supply is regulated by licences issued by the Department of Land Resource Management. A nominal annual licence fee is payable for the ongoing water usage to the Department. The arrangement is on arms length terms.

As at the date of this PDS, the TFS Group is not aware of any breaches of potential breaches of the water arrangements currently in place in the above areas.

The risks associated with the water arrangements for the Project and the measures adopted by TFS Properties to address these risks are set out below:

- Failure by TFS to pay the fees due for volumetric and fixed charges is a risk as failure to pay will result in the water supply ceasing. However failure to pay does not mean TFS loses the water entitlement or access to infrastructure and once any outstanding payment is satisfied the water supply is reinstated. In addition TFS is currently in a strong financial position and there is no reason why volumetric and fixed charge fees would not be paid by TFS;
- In the case of water arrangements in Queensland and Western Australia there is a risk that the respective State governments will change their water policies and water supply and infrastructure maintenance which currently are provided by SunWater and the Co-operative will be managed by other providers. This could result in changes to allocations, security of water supply for the life of the Project and water charges. Currently in both States TFS Properties believes that the water supply is for the life of the Project however change in State government policy may effect this. As at the date of this PDS, TFS Properties is not aware of any actions in relation to changes to water arrangements in Queensland or Western Australia which could endanger the relevant water allocation; and
- In the case of the water arrangements in the Northern Territory the water licence process in the Katherine Region is currently being reviewed by the Department of Natural Resources and therefore water licences in the region currently are only available on an annual basis. In 2011 the Department indicated that once the review is complete water licences and allocations for this region will be set for ten years, again at the cost of the nominal licence fee. The risk to Growers if the Project or part of the Project is established in the Northern Territory is that the decision of the Department in relation to the review of licences is currently unknown and therefore there is currently no guarantee that water allocations will be sufficient or that water licences will be for the life of the Project. As the size of the Project will not be known until all applications for Sandalwood Lots have been received, TFS Properties is unable to confirm as at the date of this PDS which land from its land bank will be used for the Project and whether Northern Territory land will be used. Prior to choosing to plant any Project trees in this region TFS Properties will review the current state of the Departments review of water licences.

WILL THE RESPONSIBLE ENTITY CHARGE PROJECT ASSETS?

No Project assets will be charged. However, the TFS Group has provided a charge to BTA Institutional Services Australia Pty Ltd as the trustee under a secured bond debt facility entered into with the TFS Group in 2011 (Bond Debt Facility) in respect of \$150 million in debt funding. This charge covers the TFS Properties owned land and TFS Leasing leased land which will be used to plant the Growers, trees for the Project and the shares held by TFS Properties in the Co-operative.

The land leases and water assets of the Project are not treated as property of the Scheme.



PROJECT
RETURNS

THE FOLLOWING SECTION PROVIDES GROWERS WITH INFORMATION ON SOME OF THE VARIABLES THAT MAY AFFECT THE INVESTMENT OVER THE TERM OF THE PROJECT, ALLOWING GROWERS TO MAKE THEIR OWN CALCULATIONS OF THE RETURNS.

To calculate the returns of this Project you must consider a number of variables, many of which TFS Properties is unable to control. Subsequently it is impossible to determine financial returns over the life of a 15 to 17 year project with any certainty.

For further information on the variables please refer to the Independent Expert Reports.

An investor in the Project should be looking for long term investment returns, and should not be anticipating a return before the 14th to 16th year after planting which is proposed as the year of Harvest.

SECONDARY MARKET

Legislation which governs the secondary market for immature MIS forestry plantations came into effect on 1 July 2007 which will facilitate the sale by Growers of their Sandalwood Lots, provided the initial Grower has held the Sandalwood Lot for a minimum of 4 years. Sandalwood Lot(s) may be sold subject to the rules of the secondary market on which it is sold, the Taxation Laws and the requirements outlined under the heading "Transfer of Interests" on page 85 of this PDS.

Returns are also influenced by the individual taxation position of Growers, and the risks detailed in the 'Risks and Safeguards' section on pages 26. We recommend that you seek professional advice from a licensed investment adviser, tax adviser or accountant before investing.

GENERAL ASSUMPTIONS

- The existing competitive or regulatory environments of TFS Properties' business will not change substantially;
- There are no material beneficial or adverse effects arising from the actions of competitors;
- There is no material amendment to any material agreements relating to the Responsible Entity's business; and
- There are no material changes in industrial, political or economic conditions with respect to the Sandalwood and forestry industries and the Australian economy.

YIELD ASSUMPTIONS

The following details are considered to be the best estimate of yield assumptions. Further information is available in the Expert Forester's Report on page 60 of this PDS.

- Trees will be planted at a rate that's sufficient to reasonably expect to result in at least 35 Sandalwood Trees per Sandalwood Lot being available for Harvest. This allows for a survival rate of approximately 83%.

- The total production of oil-bearing heartwood per Sandalwood Tree to be harvested is estimated at 22.5kg assuming a moisture content of 25% at the point of sale. The subsequent average heartwood production per Sandalwood Lot should be 785 kilograms (0.785 tonnes). These estimates are independently verified by Expert Forester Peter Kimber of Kimber Environment Services (see the Expert Foresters' Report on page 60).

- * Please note that TFS has recently adjusted its basis for measuring heartwood content in order to align itself with appropriate manufacturing standards. Specifically, TFS now measures heartwood at the anticipated point of sale which reflects a moisture content of approximately 25% as opposed to measuring the heartwood at the point of extraction which reflects moisture content of between 45% to 50% (which provided a heartwood estimate of 27.5kg per Sandalwood Tree). It should be noted that while the heartwood assumption is lower, the oil yield adjustment actually results in a higher yield of 3.7% (previously 3.15%). Consequently, it is estimated that there would be no loss of oil content between the two sets of assumptions and as such the anticipated value of the logs should not be impacted by the change of assumption.

- The harvest of the Sandalwood Trees is expected to occur between year 14 to year 16 after establishment, as per the Manager's discretion.
- The Oil yield extracted out of the heartwood is estimated at 3.7% at a moisture content of 25%.

More information about yield and Harvest assumptions is contained in the Expert Forester's Report on page 60.

OTHER IMPORTANT ASSUMPTIONS

Price

Mr. Anantha Padmanabha, a Forestry and Sandalwood Market Expert from Bangalore who has focused his expertise on the Indian Sandalwood Tree, has written an Expert Market Report for inclusion in this PDS. The information contained below is found in more detail in that Report on page 66.

Indian Sandalwood heartwood sold at an average of approximately \$112,000 per tonne (on small volumes) at the State of Tamil Nadu Forestry Department and Kerala auctions held in March 2011. Average auction prices (in Australian dollar terms) for heartwood have increased at a compounded annual rate of 16.7% over 20 years.

It should be noted that the price of heartwood from Indian auctions relate to mature wild sourced trees. These do not necessarily reflect anticipated prices for 14 – 16 year old plantation sourced heartwood.

Please refer to page 01 of this PDS for information on the exchange rates used for these auction prices.

- The wood currently sold at the Tamil Nadu auction is of a high quality, tending to contain on average 4.0% to 5.5% oil. While it is possible that wood grown in plantation conditions might achieve this oil content, it is more likely that a lower average figure of perhaps 3.7% (at a moisture content of 25%) oil content may be achieved.

In December 2004, 40 samples were taken from 14 year old Indian Sandalwood trees owned by the Western Australian Forest Products Commission ('FPC') (a Government agency). Tests performed on these samples showed a 3.15% average oil (at a moisture content of 45% – 50%) yield from the heartwood (see the Expert Forester's Report on page 60 for further details).

In 2010/2011 TFS sampled 90 trees owned by the FPC that were a mix of 19 to 23 year old trees. The results showed an average oil yield of 4.6% from the heartwood. The mean Heartwood per tree was 25.0kg. These results were all calculated at a moisture content of 25%.

This study proved that commercial yields of heartwood could be generated from plantation trees established in the Ord River Irrigation Area ('ORIA'). The trees used in this trial harvest represent some of the first plantings in the ORIA. These results support the continued development of a plantation grown Indian Sandalwood industry in the ORIA. Silvicultural practices have improved significantly since these trees were planted.

A strong correlation was observed between diameter over bark ('DOB') at 20cm, merchantable mass, heartwood and Sandalwood oil yield. This correlation supports the proposition that trees with a large DOB at 20cm and high tree mass promote heartwood development. This relationship is also contributing to the development of a predictive model for these characteristics in standing trees, which is the subject of ongoing research.

The yield results were independently audited by the University of Western Australia.

- Returns will be subject to a variety of risks including the failure of Trees to achieve the anticipated yields of heartwood and oil, fluctuations in the exchange rate and changes in the supply and demand for Sandalwood. These risks are set out in more detail in the 'Risks and Safeguards' section of this PDS.
- Potential investors should note that the Responsible Entity will arrange for the Forest Produce to be sold as Cleaned Logs containing heartwood. The oil prices are provided only for the purpose of estimating the price of Cleaned Logs.
- Forest Produce includes host trees and other parts of the Sandalwood tree (other than the Seeds). It is expected that these products will have commercial value that has not been included in project returns.
- Investors should note that the Project's life will be approximately 15 to 17 years including the Establishment Period, and that the price of Cleaned Logs will be affected by market fluctuations in that time.
- Mr. Padmanabha has indicated in his Expert Market Report (on page 66 of this PDS) that he anticipates ongoing price increases for heartwood of at least 5% per annum for the life of the Project.

Harvesting and Processing

- The present day costs of Harvesting, transporting to Store and Processing the Indian Sandalwood to Cleaned Logs are estimated by TFS Properties to be about \$1,333 (plus GST) per Sandalwood Lot.
- The Costs of Harvesting and Processing provided are an estimate. Actual Costs of Harvesting and Processing will be deducted from the Gross Proceeds of Sale prior to distribution to you.

Exchange Rate

- The Indian auctions are conducted in Indian Rupee and the price of Indian Sandalwood oil is given in US Dollars. It is not reasonable to forecast exchange rate fluctuations between the Australian Dollar and the Indian Rupee or US Dollar. A Grower should, however, be aware that exchange rate fluctuations can either positively or negatively affect the Gross Proceeds of Sale from a Sandalwood Lot in Australian currency terms.

Cost Increases

- The Annual Fee and Rent will be indexed at a fixed rate of 3% per annum to provide certainty to you as to future cash requirements.

Recovery of GST

- You are deemed by the ATO to be carrying on a business, and as such are eligible to register for GST purposes. Registering for GST purposes will enable you to reclaim any GST paid in relation to the Project within the year that it is paid.



RISKS AND SAFEGUARDS

AN INVESTMENT IN THIS PROJECT IS LONG TERM, AND MAY BE AFFECTED ADVERSELY BY UNFORESEEN EVENTS, OR EVENTS BEYOND THE CONTROL OF THE RESPONSIBLE ENTITY. WHERE POSSIBLE, TFS WORKS TO SAFEGUARD AGAINST RISKS.

Set out below are some of the specific and general risks which the Responsible Entity believes should be considered by potential investors when deciding whether to apply for Sandalwood Lots.

AGRICULTURAL RISKS

Fire

Like many agricultural projects, there is a risk of fire over the dry months, although existing Projects have not experienced any damaging wildfires. TFS Properties (via TFS) will adopt fire prevention measures outlined in the Plantation Management Agreement and recommends that all Growers insure their Sandalwood Lots. Plantation staff are equipped with light duty fire-fighting equipment and are given training in fire prevention and fire fighting.

Climate

To date, most of TFS Plantations are located near the inland town of Kununurra in northern Western Australia. Due to the distance from the coast, the majority of land around Kununurra is not subject to cyclonic building restrictions. It is generally expected that cyclonic activity in the region will dissipate to a rain-bearing depression due to the area's distance from the coast. Existing Projects have not experienced any cyclones or cyclone damage.

TFS has acquired land in other suitable locations in tropical northern Australia. All land acquired is subject to the land acquisition due diligence protocols TFS currently has in place which includes the need to be located sufficiently inland to be less susceptible to cyclone damage.

Thunderstorms and strong winds represent a risk in this region and can result in damage to the Trees. To limit this risk the Responsible Entity follows a policy of planting host species along the more exposed edge of the Plantations.

Other climate related risks include drought, frost, hailstorm, flooding and long term climate change. The occurrence of such events has the potential to be detrimental to the survival of the Plantation and may affect the success of the Project.

Other Physical Risks

A number of other physical risks such as disease, insects and other pests can affect the Plantation. Full-time staff operate throughout the Plantation on a regular basis and any such risks will be quickly identified and remedied where possible.

TFS manages these risks through good forestry practice relating to land preparation, weed control, nursery management, pest control and fertiliser application. These objectives are outlined in the Plantation Management Agreement adopted by TFS for the management of the Project.

If the Responsible Entity deems it necessary it will replant any relevant Sandalwood Lot(s) or part thereof with sufficient seedlings or Trees with the replanting fee to be paid by the Responsible Entity.

There are only a few small Sandalwood plantations that have grown to maturity in Australia. These are predominantly owned by Western Australia's Forest Products Commission ('FPC') in the ORIA. While this Project is based on published research on Indian Sandalwood and experience gained by TFS Properties since its first commercial planting in 1999, this is a pioneering project for commercial Sandalwood plantation forestry and may be subject to agricultural risks that are not apparent at the date of this PDS.

FINANCIAL RISKS

Exchange Rate

If heartwood is exported from Australia for sale in foreign countries (such as India), then the exchange rate between the Australian dollar and the currency of sale will impact on the Project's returns to Growers. There is a risk that the proceeds of Harvest in Australian dollars may be reduced due to unfavourable exchange rate variations between the time of investment and the time of Harvest.

Plantation Sandalwood Price Discount

The price of Sandalwood will influence the financial returns of the Project. As Sandalwood grows older the amount of heartwood in the tree generally increases as does the oil content of the heartwood, resulting in higher prices (discussed in the 'Project Returns' section). It is anticipated that Sandalwood in the Project will be harvested at age 14 – 16 years. Consequently the heartwood harvested from the Plantation may be younger than the heartwood harvested from old growth natural forests on which international prices are based. Any consideration of the returns from this Project should factor in a discount on the current market price of Indian Sandalwood harvested from the wild.

Yield Estimates and Quality

If the forecast yield is reduced due to higher than anticipated fatality rates, or lower than anticipated heartwood yields, the financial yields of this Project will be reduced. If the quantity or the quality of the oil is lower than expected this may also reduce the value of the heartwood timber.

Yield estimates given in this PDS are based largely on the FPC experimental plantation and on the extrapolation of growth rates and characteristics of other individual and small groups growing in the area. This is supported by scientific literature of Indian Sandalwood which is largely based on trees growing in natural forests.

Testing performed in 2004 on 20 of the 14 year old trees from the FPC's experimental plantation showed an average oil yield of 3.15% (at a moisture content of 45% to 50%). This oil complied with the International Standards Organisation Quality Standards (ISO/DFIS 3518) for Santalum album oil with comfortable margins to the upper and lower specification limits (see Expert Forester's Report for further details).

In 2010/2011 there was further testing on 90 FPC trees that were aged between 19 to 23 years. The results of the trial harvest showed an average oil yield of 4.6% under a moisture content of 25%. The oil distilled from these trees complied with the International Standards Organisation (ISO/DFIS 3518) for *Santalum Album* oil with comfortable margins to the upper and lower quality specification limits.

Increased Costs and Unexpected Expenditure by the Responsible Entity

Changes in the costs of Harvesting, transporting and Processing may affect the financial success of the Project.

MARKET RISKS

Demand and Supply Forces

Economic changes in the supply and demand for Sandalwood may affect the price of Sandalwood. The wealth of consumers, the availability and price of substitutes and consumer tastes are just some of the factors affecting the demand for Sandalwood. Other factors that may affect the price and sale of Sandalwood include trade policies of importer countries, the development of private plantations and difficulties accessing markets.

New Technologies

New technologies may be introduced which allow synthesis of an exact substitute of Indian Sandalwood oil which may in turn lead to a decrease in the demand for, or price of, natural Indian Sandalwood oil.

No Buy Back Right and Limitations on Transferability

Growers are advised that while there is the provision for a secondary trading market for immature forestry MIS, there remains a risk of there being limited or no liquid secondary market for Sandalwood Lots.

Growers do not have the right to require TFS Properties to purchase their interests. Any sale of Sandalwood Lots will be subject to the provisions set out in the Project documents.

REGULATORY RISK

Compliance with Laws

There is a risk that this PDS or the Responsible Entity's Australian Financial Services Licence may be withdrawn by the ASIC due to non-compliance with the Corporations Act, or the Project's Constitution or Compliance Plan. Should this occur, TFS Properties may be required to refund Applications, replace the Responsible Entity or terminate the Project.

Tax Provisions and Deductions

Current taxation rulings, tax legislation and the ATO Product Ruling in respect to the Project have been used as the basis for the taxation implications of the Project. The legislation and interpretation of taxation rulings could change.

The Commissioner of Taxation will be bound by the ATO Product Ruling issued in respect to this Project. Provided the Project is carried out in accordance with the requirements of the ATO Product Ruling, Growers should be eligible for the tax benefits outlined in the ATO Product Ruling, however there

remains the risks of disallowance of the anticipated tax deductions or failure by the Grower to obtain tax deductions in the year of Application. It is also important to note that the terms of the ATO Product Ruling provides that Growers who elect to collect their own Sandalwood after Harvest cannot rely on the ATO Product Ruling in respect of their Sandalwood Lots in the Project. Therefore, should you apply for Sandalwood Lots and elect to collect your own Sandalwood after Harvest then you cannot take advantage of the ATO Product Ruling. Refer to page 18 of this PDS for further information in relation to the election to collect your own Sandalwood.

General

Other regulatory risks include:

- (a) failure to obtain the necessary approvals required to operate the Project;
- (b) changes in government and regulatory legislation and requirements which affect the Project; and
- (c) failure to obtain or maintain adequate access to the required infrastructure such as irrigation, power and transport.

MANAGEMENT RISKS

Loss of Key Personnel

The loss of key personnel may affect the success of the Project. To mitigate this risk, TFS Corporation has implemented a staff share incentive program to limit staff turnover. TFS has recently expanded its professional forestry team helping to mitigate this risk through shared knowledge amongst team members.

Decrease in Sandalwood Project Sales

A decrease in future Sandalwood Project sales would result in a decrease in the revenue of the TFS Group and a corresponding decrease in the funds available to meet existing obligations.

However, as noted on page 32, TFS Properties believes that the TFS Group has adequate access to working capital from other sources, and ongoing lease and management fees, to ensure that TFS Properties can continue to meet its existing contractual obligations, and to satisfy the requirements which apply to TFS Properties under its Australian Financial Services Licence.

Insolvency of the Responsible Entity

An investment in the Project may be adversely affected if TFS Properties has insufficient funds to meet its financial commitments, or to meet the financial requirements imposed by TFS Properties' Australian Financial Services Licence.

The insolvency of the Responsible Entity or the Manager may result in the suspension or termination of the Project if no suitable replacement can be located.

In the event that TFS Properties were to become insolvent, the ongoing viability of the Project would rely upon the ability to engage a new entity to act as the responsible entity of the Project. There is no guarantee that an alternative qualified and willing responsible entity would be available.

To increase Grower protection in such a circumstance by ensuring that there are funds available to meet the ongoing costs of the Project, each Grower shall pay one year's Annual Fee upfront which shall be deposited by TFS into a trust account maintained by the Independent Custodian. In the event that the Responsible Entity becomes insolvent and therefore unable to pay for the Ongoing Services in that year of the Project, Growers may pass a resolution directing the Responsible Entity to instruct the Independent Custodian to release the Upfront Annual Fee and apply it in satisfaction of the outstanding Annual Fee for the following year of the Project. If Growers have not resolved to direct the Independent Custodian to release the Upfront Annual Fee by the commencement of Year 14 of the Project, the Upfront Annual Fee will be applied in satisfaction of the Annual Fee payable in Year 14 of the Project.

However, as set out on page 32, the TFS Group is currently in a strong financial position. Furthermore there are a number of measures contained in the project structure (e.g. the Subsequent Establishment Payment Fund and the Upfront Payment Fund, the trigger for compulsory fees, and the land registration measures) which endeavour to provide the necessary funding, incentives and/or protection for the Project to continue unaffected despite an insolvency event occurring to the Responsible Entity.

For further information regarding an insolvency scenario please refer to pages 40-43 of the PDS.

Insolvency of TFS Leasing Pty Ltd

An investment in the Project may be adversely affected if TFS Leasing Pty Ltd ('TFS Leasing') has insufficient funds to meet its financial commitments.

The insolvency of TFS Leasing may result in the suspension or termination of the Project as TFS Leasing is the sub-lessor of the underlying land to Growers.

In the event that TFS Leasing was to become insolvent, the ongoing viability of the Project would be uncertain. There is no guarantee that the Project would continue or an alternative arrangement could be reached.

To increase Grower protection in such a circumstance by ensuring that there are funds available to meet the ongoing costs of the Project, each Grower shall pay one year's Rent upfront which shall be deposited by TFS into a trust account maintained by the Independent Custodian. In the event that TFS Leasing becomes insolvent and therefore unable to pay Rent to the Head Lessor, then Growers may pass a resolution directing the Responsible Entity to instruct the Independent Custodian to release the Upfront Annual Rent and apply it in satisfaction of the outstanding Rent for the following year of the Project. If Growers have not resolved to direct the Independent Custodian to release the Upfront Rent by the commencement of Year 14 of the Project, the Upfront Rent will be applied in satisfaction of the Annual Rent payable in Year 14 of the Project.

However:

- TFS Group uses TFS Leasing as a landholder and for no other purpose; and
- as set out on page 32 TFS Group is currently in a strong financial position.

Working capital risk

There is a risk that TFS Properties may be unable to access sufficient funding to meet its working capital requirements for the purpose of both cultivating and Harvesting and Processing the Trees. This may adversely affect an investment in the Project by resulting in a decrease in the amount realised from the sale of the Trees, or preventing an investor from realising their investment in the Project.

However, as noted on page 33, TFS Properties receives Annual Fees from each of its projects which funds part of the working capital requirements in each year. Further, the TFS Group is seeking to diversify its income base to ensure that it has alternative income sources to rely on in the event that annual project fees are insufficient to meet working capital obligations.

RISKS ASSOCIATED WITH USE OF UNDERLYING LAND

Failure to Protect Underlying Land

TFS Properties is the registered proprietor of the underlying land which has been identified by TFS Properties for potential use in the Project. Pursuant to the Head Lease, TFS Properties will lease this land to TFS Leasing, who will then sub-lease portions of this land (in the form of Sandalwood Lots) to the Growers pursuant to the Lease and Management Agreements.

In addition to these lots, TFS Leasing may also enter into an agreement to lease additional parcels of land for potential use in the Project, and will sub-lease portions of this land (in the form of Sandalwood Lots) to the Growers pursuant to the Lease and Management Agreements.

If the Underlying Land is not protected adequately, there is the risk of potential loss by a Grower of his or her right to use and occupy the Underlying Land for the purposes of growing Sandalwood and the consequential loss of the Forest Produce derived from the Underlying Land for the duration of the Scheme.

However, the Compliance Plan sets out procedures in relation to the protection of underlying land interests. The procedures provide that within 15 months after the end of the income year in which the first payment is made by a Grower in relation to a Scheme, the Responsible Entity must ensure that:

- (a) the registered proprietor of the Underlying Land (as lessor) has entered into a Head Lease with TFS Leasing (as lessee). The head lease must permit TFS Leasing to sub-lease the Underlying Land to the Growers without the further consent of the registered proprietor;
- (b) all Head Leases relating to the Scheme have been registered with the relevant land titles office;
- (c) the Growers have entered into a sub-lease with TFS Leasing pursuant to the Lease and Management Agreement in respect of the Underlying Land;
- (d) TFS Leasing (as sub-lessor) has entered into a collateral sub-lease with the Responsible Entity (as sub-lessee and as bare trustee for the Growers in the Scheme) in respect of all Underlying Land;

- (e) if applicable, any person having a registered mortgage affecting the Underlying Land has consented to the collateral sub-lease by endorsing the collateral sub-lease; and
- (f) the Responsible Entity has registered the collateral sub-lease (or sub-leases) with the relevant land titles office.

Property title and lease documents will be held in safe custody by the Responsible Entity.

A compliance officer will review the status of the lease registration procedure quarterly until all Underlying Land is protected by a registered collateral sub-lease.

The Responsible Entity will notify the ASIC of material changes to lease registration arrangements which might reasonably be expected to cause the ASIC to review the Licence.

Growers should note however that there is a risk that TFS Properties will be unable to register this interest in the land within the lodgement period (within 15 months after the end of the income year in which the first payment is made by a Grower in relation to a Scheme), in which event TFS Properties will, within 14 days after receiving a written request from an affected Grower, issue to the Grower a full refund of the amount the Grower has invested.

Other risks to use of land

Other general risks associated with the use of land may include, but not be limited to:

- third party interests – whilst TFS implements due diligence protocols in relation to the acquisition of Underlying Land to be used for the Project to minimise the risk of acquiring land which is affected by third party interests, there is a risk that the interests of third parties in the Underlying Land (such as the holders of mining rights, native title rights or other proprietary rights) may adversely affect the Growers' ability to carry out the Project; and

- breach of contract – whilst the Responsible Entity will endeavour to protect Growers' contractual rights to use the Underlying Land by registering the agreements which contain such rights with the relevant land titles office, there is a risk that the other parties to such agreements could breach the terms of the agreements, which may adversely affect the Growers' ability to carry out the Project.

OTHER GENERAL RISKS

Over the duration of the Project, there is a risk that the success of the Project may be adversely affected by unforeseen political, economic or social events or natural disasters. Such force majeure events may excuse the Responsible Entity or the Manager from complying with the Constitution or the Lease and Management Agreements to the extent that they are prevented from doing so by the force majeure event.

For further explanation of key investment risks associated with the Project please refer to the agricultural risks set out in the Expert Forester's Report on page 60 of this PDS.

Return Assumptions

Return assumptions in respect of a project that will continue for 14 to 16 years after planting are subject to significant uncertainties, many of which are outside the control of the Responsible Entity and its Directors. You should make your own assessment of the Project based on the information set out in this PDS and based upon advice from your financial adviser.





FINANCIAL
INFORMATION
RELATING TO THE
RESPONSIBLE ENTITY

OVERVIEW

TFS Properties is a wholly owned subsidiary of TFS Corporation, a company listed on the Australian Securities Exchange ('ASX') (ASX Code – TFC).

TFS Corporation, together with its subsidiaries (together, the 'TFS Group') maintains a strong financial position through:

- targeting and maintaining conservative gearing levels;
- generating annual cash flows from its business of operating existing and new Sandalwood plantations; and
- diversifying its income base with revenues from additional operations such as sandalwood processing and distribution and from institutional plantation sales.

Further information regarding these specific aspects of the TFS Group's financial position, and their impact on an investment in the Project, is set out in this section of the PDS.

Detailed financial information regarding the TFS Group is available from TFS Corporation's announcements to ASX, and on TFS Corporation's website, www.tfsltd.com.au.

A summary of the consolidated balance sheets for the TFS Group as at 30 June 2011 and 30 June 2012 is set out below:

	30 June 2011 \$'000	30 June 2012 \$'000
Total Current Assets	178,437	175,341
Total Non Current Assets	287,861	316,514
TOTAL ASSETS	466,298	491,855
Total Current Liabilities	48,804	31,188
Total Non Current Liabilities	175,393	191,777
TOTAL LIABILITIES	224,197	222,965
NET ASSETS	242,101	268,890

Source: TFS Annual Report 2012

A summary of the balance sheets for TFS Properties at 30 June 2011 and 30 June 2012 is set out below:

	30 June 2011 \$'000	30 June 2012 \$'000
Total Current Assets	21,101	48,900
Total Non Current Assets	76,953	105,364
TOTAL ASSETS	98,054	154,264
Total Current Liabilities	40,021	92,060
Total Non Current Liabilities	17,879	23,849
TOTAL LIABILITIES	57,900	115,909
NET ASSETS	40,154	38,355

As at the date of this PDS, there are no known unfunded obligations of TFS Properties in respect of the schemes it currently operates and the Project.

As a result of the fees structure for the Project, TFS Properties may be liable to fund operating, harvesting and winding up costs of the Project on behalf of Growers. If this amount is funded on behalf of Growers through the exchange of annual management fees for a portion of the harvest proceeds, TFS Properties may earn up to 20% ownership of the scheme interest. TFS Properties will receive funding for this expenditure through the TFS Group's funding avenues set out further below in this section.

GUARANTEE AND INDEMNITIES

TFS Corporation and its two wholly owned subsidiaries TFS and TFS Properties have entered into a deed of guarantee under which the Company and its subsidiaries guarantee each other's debts. As at the date of this PDS there is no current proposal to add any party or parties to the deed of guarantee except for Mt Romance Australia Pty Ltd (ACN 060 122 698) and Mt Romance Holdings Pty Ltd (ACN 115 659 606) both of which are members of the TFS Group.

The TFS Group has provided a charge and granted mortgages to BTA Institutional Services Australia Pty Ltd the trustee under a secured bond debt facility entered into with the TFS Group in 2011 ('Bond Debt Facility') pursuant to which TFS Group has provided a guarantee to the Bank of New York Mellon as trustee for the bond holders in respect of \$150 million.

GEARING

TFS Corporation issued US\$150m in Senior Secured Notes in June 2011. This form of financing was raised in the international capital markets and it provides TFS Corporation with long-term funding to develop its land bank. At 30 June 2012 the TFS Group's net gearing ratio was 25.36%. TFS Corporation expects its gearing to remain under 40%. TFS Corporation does retain a policy to be conservatively geared.

ACCESS TO CASH FLOWS AND AVAILABILITY OF WORKING CAPITAL

As the Responsible Entity of the TFS Sandalwood Project 2013, TFS Properties is responsible for ensuring that each Grower's Sandalwood Trees are established, cultivated and, if the Grower is an Electing Grower, Harvested and sold.

In fulfilling these obligations, TFS Properties requires access to adequate working capital on an ongoing basis. Working capital requirements are generally higher in the initial years of a project, and decrease as the Trees become more established.

The TFS Group ensures that there is sufficient working capital to meet these obligations as follows:

PROJECT FEES

Each investor in the Project must pay an Establishment Fee to cover the costs of establishing their Trees. The Establishment Fee is paid into a custodian account pending acceptance of the investor's Application. Following acceptance of the Application, 50% of the Establishment Fee is transferred into an operating account. TFS Properties subsequently makes payments to the Project Manager, Tropical Forestry Services Limited ('TFS'), to fund the establishment of the Plantations for the Project. TFS Properties will deposit the remaining 50% of the Establishment Fee into a trust account which will be maintained by the Independent Custodian and released to the Responsible Entity quarterly until the completion of Establishment Services.

In each year after the Establishment Period, investors must either:

- (a) elect to pay the Annual Fee and Rent, which covers the cost of cultivating and maintaining the Trees; or
- (b) elect that these fees be deferred in return for payment to TFS Properties of a specified percentage of the investor's proceeds of the sale of the Sandalwood Trees.

These Annual Fees are paid by TFS Properties to the Project Manager, TFS, to carry out the cultivation and maintenance services on the Plantations.

Each investor in the Project shall pay the Annual Fee and Rent for one Project year upon Application, to be deposited by TFS into a trust account maintained by the Independent Custodian. These funds shall be released in satisfaction of the Annual Fee and Rent for Year 14 of the Project, unless Growers resolve to instruct the Independent Custodian to release the funds earlier to apply towards the payment of the Annual Fee or Rent in the event of failure by the Responsible Entity or TFS Leasing to provide the Ongoing Services and the payment of Rent. The payment of the Upfront Annual Fee and Upfront Rent is intended to ensure that, in the event of insolvency of the Responsible Entity or TFS Leasing, there are sufficient funds to meet the ongoing costs of the Project.

In addition, the TFS Group has access to income from other sources as outlined below, which ensures that there is adequate working capital to meet TFS Properties' obligations under the Lease and Management agreements.

OTHER REVENUE SOURCES

In addition to the Annual Fees received from a retail Sandalwood project, the TFS Group has broadened its income base to include other sources. In fact, revenues from retail Sandalwood Project sources made up approximately 8% in the 2011 financial year and are expected to be of a similar magnitude in 2012.

Particularly, the TFS Group has been actively undertaking strategic opportunities in the downstream processing of Sandalwood and Sandalwood oil, as well as sourcing an alternative investor base.

This has resulted in the growth of two significant operations which the TFS Group believes strengthens its financial position. This is due to diversifying the income base and increasing demand for the Sandalwood trees grown by the TFS Group.

The first operation is the Mt Romance Australia Pty Ltd ('MRA') business which is a major processor of Australian Sandalwood oil. The integration of the technical and marketing capabilities of MRA and the TFS Group not only provides an immediate additional revenue stream to the TFS Group, but represents a significant step towards the TFS Group's goal of becoming a vertically integrated producer of Sandalwood, Sandalwood oil and related products.

The second operation is the recent introduction of a new plantation management product that is being targeted to institutional investors offshore. The successful introduction of these investors has provided the group with an alternative investor base and reinforced the underlying value of the Indian sandalwood plantation.

In addition to the above, the TFS Group also has:

- a) a direct holding of approximately 640 hectares of Sandalwood trees in its own right; and
- b) an indirect interest in the Sandalwood trees held by existing Growers who have elected to defer their annual rent and management fees. In return for deferring these Annual Fees, these investors have agreed to pay to TFS Properties a specified percentage of returns from Harvest of their Sandalwood trees.

As a result of these interests, the TFS Group expects to receive additional annual income from each Harvest commencing in 2013/2014.

WORKING CAPITAL REQUIREMENTS FOR HARVESTING AND PROCESSING

The Costs of Harvesting and Processing the Sandalwood Trees is expected to be funded from the proceeds received from the sale of the Forest Yield.

Growers pay a fee, currently estimated to be \$1,333 (plus GST) per Sandalwood Lot, to cover these costs, which is deducted from their Gross Proceeds of Sale.

As this fee is received by the Responsible Entity after the Harvesting and Processing of the logs, the Responsible Entity must ensure that it has sufficient working capital to meet the expenses associated with Harvesting and Processing the Sandalwood Trees.

TFS Properties anticipates that it will have access to sufficient working capital to fund the Costs of Harvesting and Processing by virtue of:

- a) finance for the Costs of Harvesting and Processing from the purchasers of the Sandalwood products. The TFS Group is working towards being an integrated producer of Sandalwood products and aims to have contractual arrangements in place for the purchase of the Sandalwood products prior to Harvest. It is standard industry practice that any such purchase arrangements will provide for the funding of Harvesting and Processing by the purchaser of the products;
- b) the Annual Fees received for the Project. These fees are the same in each year (subject to indexing at 3% per annum, and differences resulting from different numbers of Annual Fee deferrals in each year), and can potentially be available to assist with the harvesting and processing operations; and
- c) to the extent that the Costs of Harvesting and Processing cannot be met from the working capital sources outlined in paragraphs (a) and (b), the TFS Group would rely on funding from other sources to meet these costs, to the extent that those sources are available.

Whilst TFS Properties expects that the above funding sources will be sufficient to meet the Costs of Harvesting and Processing the Trees, TFS Properties cannot guarantee that it will have sufficient working capital to meet these costs. Further information on this risk is set out in the 'Risks and Safeguards' section of this PDS on pages 26.

ACCESS TO ADDITIONAL CAPITAL

As a listed company, TFS Corporation also has the option of seeking additional capital from equity markets, including fundraising from existing shareholders and institutional investors.

IMPACT OF REDUCED SANDALWOOD PROJECT SALES ON THE RESPONSIBLE ENTITY

For the reasons outlined above, TFS Properties is not solely reliant on future retail Sandalwood project sales to fund its existing contractual obligations under the Lease and Management Agreement for the Project, or under any of its existing lease and management agreements for other projects.

If Sandalwood Project sales were to significantly decrease in the short term, the TFS Group believes that it has adequate access to working capital from the sources outlined above to ensure that TFS Properties can continue to meet its existing contractual obligations, and to satisfy the requirements which apply to TFS Properties under its Australian Financial Services Licence.

Furthermore, if Sandalwood Project sales were to significantly decrease in the long term the TFS Group is confident that it would have access to sufficient revenue and working capital from numerous sources to ensure that TFS Properties can continue to meet its obligations to its Growers. The sources of funds include ongoing Lease & Management fees, proceeds from the Harvest of TFS owned sandalwood trees, profits from its other businesses and access to wholesale or retail plantation sales.



INVESTMENT OPTIONS

THE TFS SANDALWOOD PROJECT 2013 OFFERS A NUMBER OF INVESTMENT OPTIONS FOR INVESTORS INCLUDING ANNUAL INVESTMENT AND ANNUAL DEFERRED INVESTMENT OPTIONS

ANNUAL INVESTMENT OPTION

After payment of the Establishment Fee, Upfront Annual Fee and Upfront Rent, you elect to pay the ongoing Annual Fee and Rent on an annual basis through the remaining life of the Project. The ongoing Annual Fee and Rent should be tax deductible when paid.

If the Upfront Annual Fee and Upfront Rent has not been released by the Independent Custodian in accordance with a resolution of Growers by the commencement of Year 14 of the Project, the Upfront Annual Fee and Upfront Rent will be applied in satisfaction of the Annual Fee and Rent for Year 14 of the Project.

ANNUAL DEFERRED INVESTMENT OPTION

You pay the Establishment Fee, Upfront Annual Fee and Upfront Rent with the Application, but elect (on an annual basis) not to pay any further ongoing Annual Fee and Rent in any year during the life of the Project. However, deferral of the Annual Fee and Rent in Year 14 is subject to the approval of the Responsible Entity, which will be determined having regard to circumstances such as the availability of the Upfront Annual Fee and Upfront Rent.

In making the decision not to pay the ongoing Annual Fee and Rent, you are effectively requesting TFS Properties to make these payments on your behalf. In exchange for making these payments, TFS Properties will receive the Annual Deferred Investment Option Fee, which is a percentage share of the Gross Proceeds of Sale at Harvest for each year in which you elect to defer payment. That additional share will range from 1% to 3% plus GST depending on the financial year in which the election is made. See Table 1 on page 40 (under the Heading "Service Fees") for the percentages of Gross Proceeds of Sale which TFS Properties will receive in respect to an election to defer payment of Fees in any particular financial year.

In the unlikely event of total destruction of your Sandalwood Lot (refer to Project Details on page 15 of this PDS), if you have not elected to pay part or all of the ongoing Annual Fee and Rent you will be liable to pay 55% of all the Annual Fee and Rent, for all years prior to the total destruction event, that would otherwise have been paid if you had taken the Annual Investment Option.

Insolvency scenario

If TFS Properties is replaced as the Responsible Entity of the Project in the event of insolvency, the Replacement Responsible Entity may require that Growers cannot elect the Annual Deferred Investment Option going forward. This means each Grower will be required to pay the Annual Fee and Rent going forward as set out in Table 3A to the Replacement Responsible Entity going forward.

This insolvency scenario is designed to facilitate, if the Responsible Entity is insolvent, the Project having sufficient funds available to meet the ongoing costs. There is no certainty that the Project will continue if TFS Properties becomes insolvent.

AVAILABILITY OF FINANCE

Finance for Establishment Fees, the Upfront Annual Fee and Upfront Rent is available from the preferred financier Arwon Finance Pty Ltd ('Arwon Finance'). All loans are made on commercial terms and are on a full recourse basis secured against the borrowers' interest in the project and Sandalwood Trees.

Enquire at TFS for an application form setting out interest rates, terms and conditions of loans, and eligibility criteria. Further information is available on the website www.tfsltd.com.au.

DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.

TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investment Commission (ASIC) website (www.fido.asic.gov.au) has a managed investment fee calculator to help you check out different fee options.

FEES AND OTHER COSTS

THE FOLLOWING TABLE SHOWS FEES AND OTHER COSTS THAT YOU MAY BE CHARGED IN RELATION TO AN INVESTMENT IN THE PROJECT. THESE FEES AND COSTS MAY BE DEDUCTED FROM YOUR MONEY, FROM THE RETURNS ON YOUR INVESTMENT OR FROM THE PROJECT ASSETS AS A WHOLE.

All amounts shown are inclusive of GST (unless specifically stated) and net of any applicable reduced input tax credits available.

The table must be read in conjunction with the notes on fees and costs set out below the table under the heading "Additional Explanation of Fees and Costs".

For each year of the Project you can elect to pay the ongoing Annual Fee and Rent on an annual basis throughout the life of the Project.

Note: You will receive a smaller return if you do not elect to pay your annual obligations.

You should read all the information about fees and costs contained in this PDS because it is important to understand their impact on your investment.

Fees and costs for the particular investment options for the life of the Project, including payment dates, are also set out in Tables 3A and 3B.

Table 1: Fees and Costs Template

TYPE OF FEE OR COST	AMOUNT		HOW AND WHEN PAID/GRANTED
	Annual Investment Option	Annual Deferred Investment Option	
<p>Establishment Fee The fee to apply for an investment in the Project. For Applications of:</p> <ul style="list-style-type: none"> between 1 and 11 lots inclusive: 12 lots or more: <p>Please refer to subsection (a) for further information</p>	<p>\$6,875 per lot</p> <p>\$6,600 per lot</p>	<p>\$6,875 per lot</p> <p>\$6,600 per lot</p>	<p>The whole of the Establishment Fee is due and payable by the Grower to the Responsible Entity upon the Grower executing and returning the Application Form to the Responsible Entity.</p> <p>The Grower may elect to:</p> <p>(a) pay the whole of the Establishment Fee (and Upfront Annual Fee and Upfront Rent) upon Application; or</p> <p>(b) pay 20% of the Establishment Fee (and Upfront Annual Fee and Upfront Rent) upon Application and the remainder in instalments within 12 months after Application but prior to 30 June of the following financial year as agreed by Arwon Finance (the '12 Month Interest Free Loan Option). This option is available to approved applicants only.</p> <p>(c) Long-term finance is available for the Establishment Fee (and Upfront Annual Fee and Upfront Rent) via Arwon Finance. Enquire at TFS for an application form setting out fixed interest rates, eligibility criteria and other terms and conditions of the Principal and Interest Loan.</p>
<p>Contribution Fee Not applicable as no additional contributions to the investment are made after Application.</p>	Not applicable	Not applicable	Not applicable
<p>Withdrawal Fee Not applicable as Growers are not entitled to withdraw from the Project.</p>	Not applicable	Not applicable	Not applicable
<p>Termination Fee The fee to close your investment.</p>	Not applicable	Not applicable	Not applicable

TYPE OF FEE OR COST	AMOUNT		HOW AND WHEN PAID/GRANTED
	Annual Investment Option	Annual Deferred Investment Option	
Management Costs			
<p>Upfront Annual Fee</p> <p>One year's Annual Fee will be paid upfront and deposited by TFS in a trust account maintained by the Independent Custodian. This Upfront Annual Fee will be applied in satisfaction of the Annual Fee payable in year 14 of the Project, or, in the event that the Responsible Entity becomes insolvent and unable to provide the Ongoing Services, the Growers may direct the Independent Custodian to release the Upfront Annual Fee and apply it in satisfaction of the outstanding Annual Fee for the following year of the Project.</p> <p>Please refer to subsection (b) for further information</p>	\$412 per lot	\$412 per lot	<p>The whole of the Upfront Annual Fee is due and payable by the Grower to the Responsible Entity upon the Grower executing and returning the Application Form to the Responsible Entity.</p> <p>The Grower may elect to finance Upfront Annual Fee with the Establishment fee via the 12 Month Interest Free Loan Option or the Principal and Interest Loan Option.</p> <p>Insolvency Scenario</p> <p>In the event that the Responsible Entity becomes insolvent and unable to provide the Ongoing Services the Growers may, by resolution, direct the Independent Custodian to release the Upfront Annual Fee and apply it in satisfaction of the outstanding Annual Fee for the following year of the Project.</p>
<p>Upfront Rent</p> <p>One year's Rent will be paid upfront and deposited by TFS in a trust account maintained by an Independent Custodian. This Upfront Rent will be applied in satisfaction of the Rent payable in year 14 of the Project, or in the event that the TFS Leasing becomes insolvent and therefore unable to pay the Rent, Growers may direct the Independent Custodian to release the Upfront Rent and apply it in satisfaction of the outstanding Rent for the following year of the Project.</p> <p>Please refer to subsection (c) for further information</p>	\$138 per lot	\$138 per lot	<p>The whole of the Upfront Rent is due and payable by the Grower to the Responsible Entity upon the Grower executing and returning the Application Form to the Responsible Entity.</p> <p>Growers can elect to finance the Upfront Rent with the Establishment Fee via the 12 Month Interest Free Loan Option or the Principal and Interest Loan Option.</p> <p>Insolvency Scenario</p> <p>In the event that TFS Leasing becomes insolvent and therefore unable to pay the Rent then Growers may, by resolution, direct the Independent Custodian to release the Upfront Rent and apply it in satisfaction of the outstanding Rent for the following year of the Project.</p>
<p>Annual Fee</p> <p>This fee covers ongoing annual costs of the Project. Please refer to subsection (d) for further information.</p>	\$412 per lot ¹	Not applicable	<p>Under the Annual Investment Option, the Annual Fee and Rent are invoiced to the Grower on 1 January of Years 1 to 14 of the Project.</p> <p>Under the Annual Deferred Investment Option, the Annual Fee and Rent are not paid (see below under Service Fees – "Costs of Annual Deferred Investment Option").</p> <p>If the Upfront Annual Fee and Upfront Rent are not released from the Independent Custodian account prior to the commencement of Year 14 of the Project, the Upfront Annual Fee and Upfront Rent will be applied in satisfaction of the Annual Fee and Rent in Year 14 of the Project.</p>
<p>Rent</p> <p>Please refer to subsection (e) for further information</p>	\$138 per lot ¹	Not applicable	<p>If the Upfront Annual Fee and Upfront Rent are not released from the Independent Custodian account prior to the commencement of Year 14 of the Project, the Upfront Annual Fee and Upfront Rent will be applied in satisfaction of the Annual Fee and Rent in Year 14 of the Project.</p>

TYPE OF FEE OR COST	AMOUNT		HOW AND WHEN PAID/GRANTED
	Annual Investment Option	Annual Deferred Investment Option	
Management Costs			
Harvesting and Processing Fee (estimated) Please refer to sub-section (f) for further details.	\$1,333 (plus GST) per lot	\$1,333 (plus GST) per lot	Deducted from the Grower's Gross Proceeds of Sale prior to distribution of the Grower's proceeds from the Project.
Selling and Marketing Fee Please refer to sub-section (g) below for further details.	5% (plus GST) of Gross Proceeds of Sale	5% (plus GST) of Gross Proceeds of Sale	Deducted from the Grower's Gross Proceeds of Sale prior to distribution of the Grower's proceeds from the Project.
Incentive Fee An amount payable to the Responsible Entity by reference to the performance of the Project.	30% (plus GST) of the amount (if any) by which the actual Net Proceeds of Sale exceed the Target Net Proceeds of Sale.	30% (plus GST) of the amount (if any) by which the actual Net Proceeds of Sale exceed the Target Net Proceeds of Sale.	Deducted from the Grower's Net Proceeds of Sale prior to distribution to the Grower. Please refer to sub-section (i) in the 'Additional Explanation of Fees and Costs' section for further details.
Service Fees			
Annual Deferred Investment Option Note: The deferral of the Annual Fee and Rent in Year 14 is subject to the approval of the Responsible Entity, which will be determined by the availability of the Upfront Annual Fee and Upfront Rent.	Not applicable	The percentage of Gross Proceeds of Sale to be paid to the Responsible Entity at Harvest will depend on the financial year in which the Grower requests the deferral of the Annual Fee and Rent: Years 1–2: 3% plus GST Years 3–4: 2% plus GST Years 5–14: 1% plus GST	If applicable, costs of the Annual Deferred Investment Option are deducted from the Grower's Gross Proceeds of Sale upon Harvest of the Sandalwood Lots. Insolvency scenario If TFS Properties is replaced as the Responsible Entity of the Project in the event of insolvency, the Replacement Responsible Entity may require that Growers cannot elect the Annual Deferred Investment Option going forward. This means each Grower will be required to pay the Annual Fee and Rent going forward as set out in Table 3A to the Replacement Responsible Entity. This insolvency scenario is designed to facilitate, if the Responsible Entity is insolvent, the Project having sufficient funds available to meet the ongoing costs. There is no certainty that the Project will continue if TFS Properties becomes insolvent.
Insurance Fee The fee payable by Growers who have requested the Responsible Entity to obtain insurance on their behalf. Note that all Growers who have obtained finance for their investment through Arwon Finance must obtain insurance in respect of their Sandalwood Lots. Please refer to sub-section (h) for further details.	Payment of annual insurance premium to an external provider (arranged by the Responsible Entity).	Payment of annual insurance premium to an external provider (arranged by the Responsible Entity).	Payable at the time the insurance is affected on behalf of the Grower by the Responsible Entity.
Switching Fee The fee for changing investment options.	Not applicable	Not applicable	Not applicable

Notes:

1. Annual Fees and Rent are subject to a fixed increase of 3% per annum.

ADDITIONAL EXPLANATION OF FEES AND COSTS

The costs to participate in the Project are explained below. One Sandalwood Lot covers an area of one twelfth of a hectare.

a. Establishment Fee

The Establishment Fee covers costs of seed acquisition and propagation of seedlings, ground preparation, weed control, planting, fertilising, irrigation costs, and other Plantation requirements.

In respect of the Establishment Fees set out in the previous tables, the prices quoted apply to all of the Sandalwood Lots purchased for that particular Application. As an example, if you were to apply for twelve lots (i.e. one hectare) then you will be required to pay \$79,200 (that is, 12 lots at \$6,600 per lot) (including GST).

Upon executing and returning an Application Form, you acknowledge that the whole of the Establishment Fee is due and payable to the Responsible Entity. However, you may choose one of the following payment options in respect of satisfying the Establishment Fee:

- (a) pay the whole of the Establishment Fee (and Upfront Annual Fee and Upfront Rent) upon Application; or
- (b) Approved applicants can pay 20% of the Establishment Fee (and Upfront Annual Fee and Upfront Rent) upon Application and the remainder in instalments within 12 months after Application but prior to 30 June of the following financial year as agreed by Arwon Finance (the '12 Month Interest Free Loan Option'). An administration fee of \$100 will apply to each 12 Month Interest Free Loan Application; or
- (c) Long-term finance is available to approved applicants for the Establishment Fee (and Upfront Annual Fee and Upfront Rent) via Arwon Finance. Enquire at TFS for an application form setting out fixed interest rates, eligibility criteria and other terms and conditions of the Principal and Interest Loan.

12 Month Interest Free Loan

Refer to pages 98 – 107 of this PDS for the terms and conditions of the loan agreement for the 12 Months Interest Free Loan. Potential borrowers should read the loan agreement in full before applying for a loan.

Arwon Finance will monitor the level of Applications received under the 12 Month Interest Free Loan Option and is not obliged to accept all 12 Months Interest Free Loan Applications. Further, Applications for the 12 Month Interest Free Loan Option will be reviewed on an Application by Application basis.

If you choose the 12 Month Interest Free Loan Option, you must complete and return the 12 Month Interest Free Loan Option Application Form on page 96 of this PDS together with the Grower Application Form to TFS Properties. Approval or otherwise of the terms and conditions for the 12 Month Interest Free Loan will be issued direct from Arwon Finance.

Arwon Finance may charge you interest on overdue amounts at a rate of 15% per annum calculated on a daily basis from the due date until payment is received.

Under the Loan Agreement you charge all your rights, title and interest in your Sandalwood Lot(s) and under the Lease and Management Agreement in favour of Arwon Finance as security for payment of amounts due under the Loan Agreement. The loan under the 12 Month Interest Free Loan Option is secured on a full recourse basis secured against the borrowers' interest in the Project and Sandalwood Trees. Accordingly, borrowers will remain liable to repay the amount made available under the loan should the Project fail.

You may elect to pay the balance of the amount owing early by notifying Arwon Finance. No charges for early payment will be incurred.

If you do not pay the required instalments pursuant to the Loan Agreement, then provided Arwon Finance has given you 14 days written notice to remedy the situation and payment has still not been made, the balance owing under the Loan Agreement will become immediately due and payable. Arwon Finance may also take legal proceedings to recover the amount, resume all rights, title and interest which you had in your Sandalwood Lot(s), or do anything which an owner of the Sandalwood Lot(s) is entitled to do under the Lease and Management Agreement.

Interest on overdue amounts and repayment of the principle sum are the only amounts to be received by Arwon Finance in connection with a 12 Month Interest Free Loan. No other member of the TFS Group, including the Responsible Entity, will receive any amounts in relation to you entering into finance arrangements with Arwon Finance under a 12 Month Interest Free Loan.

Principal and Interest Loan

Please contact TFS Properties Ltd for an application form setting out fixed interest rates (on commercial rates), eligibility criteria and the terms and conditions of the Principal and Interest Loan. Potential borrowers should read the loan agreement in full before applying for a loan.

Arwon Finance will monitor the level of Applications received under the Principal and Interest Loan Option and is not obliged to accept all Principal and Interest Loan Applications. Further, Applications for the Principal and Interest Loan Option will be reviewed on an Application by Application basis.

If you choose the Principal and Interest Loan Option, you must complete and return the Principal and Interest Loan Option Application Form together with the Growers Application Form to TFS Properties. Approval or otherwise of the terms and conditions for the Principal and Interest Loan will be issued direct from Arwon Finance.

Arwon Finance may charge you interest on overdue amounts at the Lower Fixed Rate plus 3% per annum. This shall be known as the Higher Rate as described in the Loan Agreement. This rate shall be calculated on a daily basis until payment is received.

Under the Principal and Interest Loan Agreement you charge all your rights, title and interest in your Sandalwood Lot(s) and under the Lease and Management Agreement in favour of Arwon Finance as security for payment of amounts due under the Principal and Interest Loan Agreement.

You may elect to pay the balance of the outstanding Arwon Finance loan owing before the agreed date of maturity by notifying Arwon Finance. Charges may be incurred for early repayment in accordance with the Principal and Interest Loan Agreement.

If you do not pay the required instalment pursuant to the Principal and Interest Loan Agreement, then provided Arwon Finance has given you 14 days written notice to remedy the situation and payment has still not been made, the balance owing under the Principal and Interest Loan Agreement will become immediately due and payable. Arwon Finance may also take legal proceedings to recover the amount, resume all right, title and interest which you had in your Sandalwood Lot(s), or do anything which an owner of the Sandalwood Lot(s) is entitled to do under the Lease and Management Agreement.

All loans are made on commercial terms and are on a full recourse basis secured against the borrowers' interest in the Project and Sandalwood Trees. Accordingly, borrowers will remain liable to repay the amount made available under the loan plus interest should the Project fail.

Repayment of the principle sum together with applicable interest are the only amounts to be received by Arwon Finance in connection with a Principal and Interest Loan. No other member of the TFS Group, including the Responsible Entity, will receive any amounts in relation to you entering into finance arrangements with Arwon Finance under a Principal and Interest Loan.

Further information is available on the website www.tfsltd.com.au in the 'Sandalwood Investors' section.

b. Upfront Annual Fee

One year's Annual Fee will be paid upfront and deposited by TFS into a trust account maintained by the Independent Custodian. This Upfront Annual Fee will be applied in satisfaction of the Annual Fee payable in Year 14 of the Project, unless released earlier in the circumstances described in the "Insolvency Scenario" below.

Growers can elect to finance the Upfront Annual Fee with the Establishment Fee via the 12 Month Interest Free Loan Option or the Principal and Interest Loan Option.

Insolvency scenario

In the event that the Responsible Entity becomes insolvent and unable to pay for the Ongoing Services in that year of the Project then Growers may, by resolution, direct the Independent Custodian to release the Upfront Annual Fee and apply it in satisfaction of the outstanding Annual Fee for the following year of the Project.

c. Upfront Rent

One year's Rent will be paid upfront and deposited by TFS into a trust account maintained by the Independent Custodian. This Upfront Rent will be applied in satisfaction of the Rent payable in year 14 of the Project, unless released earlier in the circumstances described in the "Insolvency Scenario" below.

Growers can elect to finance the Upfront Rent with the Establishment Fee via the 12 Month Interest Free Loan Option or the Principal and Interest Loan Option.

Insolvency scenario

In the event that TFS Leasing becomes insolvent and therefore unable to pay the Rent to the Head Lessor then Growers may, by resolution, direct the Independent Custodian to release the Upfront Rent Fee and apply it in satisfaction of the outstanding Rent for the following year of the Project.

d. Annual Fee

The Annual Fee covers ongoing annual costs of the Project which will include weeding, pruning, irrigation, growth and yield measurements, pest control and management overheads.

The Annual Fee will be charged 6 months in arrears and 6 months in advance on 1 January each year (commencing on the 1 January immediately following the Establishment Period). The invoice for the Annual Fee will set out the total amount to be paid and will contain a detailed breakdown of the composition of the total fee.

For example, if you invest on or before 30 June 2013 the Sandalwood Lot will be planted within 18 months of the Commencement Date (i.e. at the latest by 31 December 2012), and the first Annual Fee will be invoiced on or about 1 January 2015 with the subsequent Annual Fee invoiced on 1 January in each following year during the term of the Project. The Annual Fee will be levied for services rendered 6 months in arrears and 6 months in advance. Subsequent Annual Fee will increase at a fixed rate of 3% per annum throughout the life of the Project.

The Annual Fee is paid from Year 1 (i.e. the year after the Establishment of the Sandalwood Lot) to Year 14 (i.e. payable for 14 years in total).

The Annual Fee for one Sandalwood Lot is \$412 (including GST).

Insolvency scenario

If TFS Properties is replaced as the responsible entity of the Project in the event of insolvency, the Replacement Responsible Entity may require that Growers cannot elect the Annual Deferred Investment Option going forward. This means each Grower will be required to pay the Annual Fee going forward as set out in Table 3A to the Replacement Responsible Entity.

This insolvency scenario is designed to facilitate, if the Responsible Entity is insolvent, the Project having sufficient funds available to meet the ongoing costs. There is no certainty that the Project will continue if TFS Properties becomes insolvent.

e. Rent

Rent will be charged 6 months in arrears and 6 months in advance on 1 January each year at the same time as the Annual Fee.

Rent for one Sandalwood Lot is \$138 (including GST). Second and subsequent Rent charged will also escalate at a fixed rate of 3% per annum through the life of the Project.

Rent is payable from Year 1 (i.e. the year after the Establishment Period) to Year 14 (i.e. payable for 14 years in total).

Insolvency scenario

If TFS Properties is replaced as the responsible entity of the Project in the event of insolvency, the Replacement Responsible Entity may require that Growers cannot elect the Annual Deferred Investment Option going forward. This means each Grower will be required to pay the Rent going forward as set out in Table 3A to the Replacement Responsible Entity.

This insolvency scenario is designed to facilitate, if the Responsible Entity is insolvent, the Project having sufficient funds available to meet the ongoing costs. There is no certainty that the Project will continue if TFS Properties becomes insolvent.

f. Harvesting and Processing Fee

The present day costs of Harvesting your Indian Sandalwood, transporting it to Store and Processing it has been estimated by TFS at about \$16,000 (plus GST) per hectare (12 Sandalwood Lots). It should be noted that this is an estimate, and actual Costs of Harvesting and Processing will be charged on a per Sandalwood Lot basis, whether these are more or less than the estimated figure provided above.

You have the right to elect to take your own Sandalwood timber (see Election to Collect Sandalwood on page 18). In the event that you elect to take your own Sandalwood, you must pay the Costs of Harvesting and Processing as well as any deferred fee applicable prior to being able to collect it. If you elect to take your own Sandalwood you cannot rely on the ATO Product Ruling in respect to your Sandalwood Lots in the Project. Refer to page 18 of this PDS for further information in relation to the election to collect your own Sandalwood.

The current Harvest plan is to remove 100% of the wood at maturity which is expected in Year 14 – 16. However the plan may be adjusted as required based on the demand for Sandalwood in that year, price and an assessment of heartwood yields.

g. Selling and Marketing Fee

TFS Properties will be paid a Selling and Marketing Fee of 5% (plus GST) of the Gross Proceeds of Sale. The Selling and Marketing Fee is to pay for Selling and Marketing Services and will be deducted from the Gross Proceeds of Sale prior to distribution if you have elected to have TFS Properties market and sell your produce. Any additional costs incurred by TFS Properties associated with transportation of the wood to market or any costs associated with any procedure to prepare the Cleaned Logs to a particular buyer's requirements or the requirements of a particular market will be recoverable by it from you as and when such costs are incurred.

h. Insurance

TFS Properties will insure the Trees in the nursery and when planted on your Sandalwood Lot against fire for 90% of their value at its cost until the end of the Establishment Period. If you wish to take insurance cover from this point you will be responsible for affecting your own insurance.

If you are indebted to Arwon Finance for loans made for fees due under the provisions of the Lease and Management Agreement or this PDS, you will be responsible for affecting your own insurance at all times, as TFS Properties will not take out insurance cover for you at any time.

i. Incentive Fee

The Responsible Entity will deduct a Fee of 30% (plus GST) of the amount (if any) by which the actual Net Proceeds of Sale realised exceed the Target Net Proceeds of Sale.

The Incentive Fee is included in the Management Costs section of the Fees and Costs Template in Table 1.

The Target Net Proceeds of Sale is set at \$100,000 per Sandalwood Lot in accordance with the terms of the Lease and Management Agreement. The Target Net Proceeds of Sale is set at \$100,000 per Sandalwood Lot in future dollar terms. This means, in an inflationary environment, \$100,000 is a lower Target Net Proceeds of Sale than \$100,000 represents in value today.

j. Cost Increases

Rather than subject your annual costs (Annual Fee and Rent) to changes in Australia's Consumer Price Index, TFS Properties has chosen to fix these costs at a rate of increase of 3% per annum, thereby providing certainty for you as to future Fee levels.

EXAMPLE OF ANNUAL FEES AND COSTS FOR THE ANNUAL INVESTMENT OPTION

The following table gives an example of how the fees and costs in the Annual Investment Option can affect your investment over a 1 year period. You should use this table to compare the product offered under this PDS with other managed investment products.

Table 2: Example of Annual Fees and Costs

The Annual Investment Option		
		BALANCE OF \$50,000. (This figure is used to facilitate comparisons with other managed investment products and is the equivalent of an Application for 7.27 Sandalwood Lots. Please note that this figure is used for illustrative purposes only and Applications for fractions of Sandalwood Lots will not be accepted).
Annual Fee	\$412 per lot	For every \$50,000 you have invested in the Project you will be charged the Annual Fee of \$2,995 for each of Years 1 to 14*.
Rent	\$138 per lot	For every \$50,000 you have invested in the Project you will be charged Rent of \$1,003 for each Years 1 to 14*.
Cost of fund	\$550 per lot	If you had an investment of \$50,000 at the beginning of the year you would be charged fees of: \$3,998 pa indexed annually by 3% What it costs you will depend on the investment option you choose.

*Note – the Upfront Annual Fee and Upfront Rent may be applied in satisfaction of the Annual Fee and Rent for Year 14 of the Project.

FEES AND COSTS – INVESTMENT OPTIONS

Table 3A: Annual Investment Option (One Sandalwood Lot)

Project Year	0	Est. period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Financial Year Ending 30 June	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Invoice Date	by 30-Jun-13 1-Jan-14 1-Jan-15 1-Jan-16 1-Jan-17 1-Jan-18 1-Jan-19 1-Jan-20 1-Jan-21 1-Jan-22 1-Jan-23 1-Jan-24 1-Jan-25 1-Jan-26 1-Jan-27 1-Jan-28 1-Jan-29 1-Jan-30																	
Fixed Cost Escalation	3%		100%	103%	106%	109%	113%	116%	119%	123%	127%	130%	134%	138%	143%	147%	151%	156%
Grower Costs (GST Inclusive)																		
Establishment Fee	6,875																	
Upfront Annual Fee and Upfront Rent	550																	
Annual Fee	–	–	412	424	437	450	464	478	492	507	522	538	554	570	587	605	–	–
Rent	–	–	138	142	146	151	155	160	165	170	175	180	185	191	197	203	–	–
Total Costs	7,425	–	550	567	583	601	619	638	657	676	697	718	739	761	784	808	–	–
Application of Upfront Fees (plus interest)																	808	
GST Credit	(675)	–	(50)	(52)	(53)	(55)	(56)	(58)	(60)	(61)	(63)	(65)	(67)	(69)	(71)	–	–	–
Grower Cashflow (Exclusive of Tax, Finance, Revenue Returns)	6,750	–	500	515	530	546	563	580	597	615	633	652	672	692	713	–	–	–

Notes (Annual Investment Option):

1. Assumes Grower is resident in Australia for tax purposes and has invested in one Sandalwood Lot.
2. Annual Fee and Rent have been provided in Table 1 of this PDS in Australian dollars as at 30 June 2013. Fixed price escalation of 3% per annum commences from the end of the Establishment Period.
3. There is an annual election to not pay Annual Fees and Rent (See Table 3B).
4. Additional costs to the above include (GST exclusive):
 - i) Selling and Marketing Fee of 5.0% of the Gross Proceeds of Sale.
 - ii) Incentive Fee of 30% of revenues over the Target Net Proceeds of Sale of \$100,000.
 - iii) Harvest and Processing Fee (estimated) at \$1,333 per lot (in today's dollars)
 - iv) Insurance fees where applicable
5. Numbers have been rounded to the nearest whole number.
6. It has been assumed that the Establishment Fee is paid on Application and not by instalments pursuant to the 12 Month Interest Free Loan Option.
7. If the Upfront Annual Fee and Upfront Rent are not released from the Independent Custodian account prior to the commencement of Year 14 of the Project, the Upfront Annual Fee and Upfront Rent will be applied in satisfaction of the Annual Fee and Rent in Year 14 of the Project.

Table 3B: Annual Deferred Investment Option (One Sandalwood Lot)

Project Year	0	Est. Period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
Financial Year Ending 30 June	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Invoice Date	by 30-Jun-13		1-Jan-14	1-Jan-15	1-Jan-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20	1-Jan-21	1-Jan-22	1-Jan-23	1-Jan-24	1-Jan-25	1-Jan-26	1-Jan-27	1-Jan-28	1-Jan-29	1-Jan-30
Fixed Cost Escalation	3%		100%	103%	106%	109%	113%	116%	119%	123%	127%	130%	134%	138%	143%	147%	151%	156%	
Annual Deferral Fee	Total 20%		3%	3%	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	0%	
EXAMPLE 1: ANNUAL FEES PAID YEARS 6-14																			
Grower Costs (GST Inclusive)																			
Establishment Fee	6,875																-	-	
Upfront Annual Fee and Upfront Rent	550																	808	
Annual Fee	-	-	-	-	-	-	-	478	492	507	522	538	554	570	587	605	-	-	
Rent	-	-	-	-	-	-	-	160	165	170	175	180	185	191	197	203	-	-	
Application of Upfront Fees (plus interest)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(808)		
GST Credit	(675)	-	-	-	-	-	-	(58)	(60)	(61)	(63)	(65)	(67)	(69)	(71)	-	-	-	
Total Costs	6,750	-	-	-	-	-	-	580	597	615	633	652	672	692	713	-	-	-	
Total Costs Not Paid (GST excl.)			500	515	530	546	563												
Percentage of Gross Proceeds of Sale			3%	3%	2%	2%	1%												
EXAMPLE 2: ANNUAL FEES PAID YEARS 1-5																			
Grower Costs (GST Inclusive)																			
Establishment Fee	6,875																		
Upfront Annual Fee and Upfront Rent	550																		
Annual Fee	-	-	412	424	437	450	464	-	-	-	-	-	-	-	-	605	-	-	
Rent	-	-	138	142	146	151	155	-	-	-	-	-	-	-	-	203	-	-	
Application of Upfront Fees (plus interest)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(808)	-	-	
GST Credit	(675)	-	(50)	(52)	(53)	(55)	(56)	-	-	-	-	-	-	-	-	-	-	-	
Total Costs	6,750	-	500	515	530	546	563	-	-	-	-	-	-	-	-	-	-	-	
Total Costs Not paid (GST Excl.)								580	597	615	633	652	672	692	713				
Percentage of Gross Proceeds of Sale								1%	1%	1%	1%	1%	1%	1%	1%				
EXAMPLE 3: NO ANNUAL FEES PAID																			
Grower Costs (GST Inclusive)																			
Establishment Fee	6,875																		
Upfront Annual Fee and Upfront Rent	550																		
Annual Fee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	605	-	-	
Rent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	203	-	-	
Application of Upfront Fees (plus interest)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(808)	-	-	
GST Credit	(675)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Costs	6,750	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Costs Not Paid (GST excl.)			500	515	530	546	563	580	597	615	633	652	672	692	713	-	-	-	
Percentage of Gross Proceeds of Sale			3%	3%	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%				

Notes (Annual Deferred Investment Option):

1. Assumes Grower is resident in Australia for tax purposes and has invested in one Sandalwood Lot.
2. Annual Fee and Rent have been provided in Table 1 of this PDS in Australian dollars as at 30 June 2013. Fixed price escalation of 3% per annum commences from the end of the Establishment Period.
3. There is an annual election to pay Annual Fee and Rent (See Table 3A).
4. Additional costs to the above include (GST exclusive):
 - i) Selling and Marketing Fee of 5.0% of the Gross Proceeds of Sale.
 - ii) Incentive Fee of 30% of revenues over the Target Net Proceeds of Sale of \$100,000.
 - iii) Harvest and Processing Fee (estimated) at \$1,333 per lot (in todays dollars)
 - iv) Insurance fees where applicable
5. Numbers have been rounded to the nearest whole number.
6. It has been assumed that the Establishment Fee is paid on Application and not by instalments pursuant to the 12 Month Interest Free Loan Option.
7. If TFS Properties is replaced as the Responsible Entity of the Project in the event of insolvency, the Replacement Responsible Entity may require that Growers cannot elect the Annual Deferred Investment Option.
8. If the Upfront Annual Fee and Upfront Rent are not released from the Independent Custodian account prior to the commencement of Year 14 of the Project, the Upfront Annual Fee and Upfront Rent will be applied in satisfaction of the Annual Fee and Rent in Year 14 of the Project.





TAXATION

THE TFS SANDALWOOD PROJECT 2013 CAN OFFER INVESTORS TAXATION BENEFITS THROUGH AN AUSTRALIAN TAXATION OFFICE APPROVED PRODUCT RULING.

TAX DEDUCTIONS

A Product Ruling ensures that you are entitled to an allowable deduction for all Establishment Fees, Annual Fees and Rent when paid. It is important to note that Growers who elect to collect their Sandalwood cannot rely on the ATO Product Ruling in respect of their Sandalwood Lots in the Project.

If your Application is accepted and Application Monies are paid before 30 June you are entitled to claim a tax deduction for the Establishment Fee in the financial year in which the Application Monies are paid where the Establishment Services are completed within 18 months of the date that the Responsible Entity first accepts an Application from an investor and 70% of the Establishment Fees from all Growers is expended on direct forestry expenditure (as defined in Division 394 of the *Income Tax Assessment Act 1997*).

Interest on monies borrowed to pay for the Sandalwood Lots should be an allowable deduction in the year in which the interest is incurred for income tax purposes.

You may derive assessable income from the Project being your share of the Net Proceeds of Sale.

PRODUCT RULINGS

The Responsible Entity has applied for, and been granted, a Product Ruling (2012/29) for this Project by the Commissioner of Taxation. Set out below is a summary relating to the Product Ruling:

A Product Ruling is a binding public ruling under the Taxation Administration Act 1953, in relation to income tax and fringe benefits tax law. A Product Ruling provides certainty for investors by confirming that the tax benefits set out in the Product Ruling are available, provided that the arrangement is carried out in accordance with the information provided to the ATO by the persons described in the Product Ruling as providing information.

The Product Ruling confirms that the relevant provisions of Part IVA of the Income Tax Assessment Act 1936 will not be applied to cancel a tax benefit obtained under a tax law covered in the Ruling.

The grant of the Product Ruling does not mean that the ATO sanctions this investment or gives any assurance that the production of Sandalwood is commercially viable. You should obtain individual tax and investment advice before deciding to invest in the Project.

The Product Ruling is available from the company website and a hard copy can be obtained from the Australian Taxation Office or from the registered office.

INCOME TAX

Capital gains tax or income tax may be payable on a disposal of a Sandalwood Lot and you should consult your taxation advisers on this issue.

GOODS AND SERVICES TAX

Goods and Services Tax (GST) is applicable to the Establishment Fees, ongoing Annual Fees and Rent and is payable on any income received from the Gross Proceeds of Sale at Harvest. All prices quoted are GST inclusive unless specified otherwise.

GST is a broad based indirect tax. It is a tax that is charged on the supply of goods and services in Australia and on imported goods. GST is charged at 10%.

Taxable Supplies in the Project include the sub-lease from the lessor and the services provided by TFS Properties in accordance with the Lease and Management Agreement. This means that you will be required to pay 10% GST on payment of all services (in accordance with the Lease and Management Agreement).

Where you are registered with an Australian Business Number ('ABN') for GST purposes, you should be entitled to claim an input tax credit equal to the GST that you have paid. You may register for an ABN even if your annual turnover is or would be less than the \$75,000 registration threshold. The main implication of you not registering is that you will have no entitlement to an input tax credit for GST paid.

However as the GST is an expense incurred in deriving assessable income, any GST incurred by you as an unregistered Grower will be an allowable deduction from your assessable income in the year in which it is incurred.

The Lease and Management Agreement provides that any GST which is payable in respect of the Lease, the Fees or any other payment or service which is provided pursuant to the terms of the Lease and Management Agreement shall be paid by you.

You may also be liable to pay GST on any income received from the Gross Proceeds of Sale at Harvest.

You should obtain your own independent professional advice as to the effects of GST with respect to an investment made under this PDS.

AN ETHICAL INVESTMENT – THE ENVIRONMENT AND COMMUNITY

TFS IS COMMITTED TO SUSTAINABLE DEVELOPMENT – DELIVERING BENEFITS TO THE COMMUNITY AND ENVIRONMENT WHILE OPERATING A HIGHLY SUCCESSFUL SANDALWOOD BUSINESS.

ENVIRONMENT

TFS believes in thinking of tomorrow by adopting a proactive strategy to environmental management.

TFS Group has achieved accreditation for ISO 9001:2008 (Quality), ISO 14001:2004 (Environment) and AS/NZS 4801:2001 (Occupational Health and Safety) and continually works towards environmental and ethical best practice.

Reducing exploitation

Plantations provide an alternative source of Indian Sandalwood, helping to limit the rapid deforestation of wild Indian Sandalwood.

Lowering the Watertable

Sandalwood is a deep-rooted tree that assists in lowering the watertable. This helps to combat the problem of salinity, where excessive salt in the land and water exists as a result of human activity such as crop farming.

Reforestation

TFS supports the protection of the Kimberley's natural ecosystems and unique environment which provides an important habitat for local bird and wildlife.

Reducing Pesticides

TFS is using innovation to continually minimise the use of pesticides. By planting a tropical legume on plantations, TFS has been able to limit the use of pesticides while also effectively reducing the growth of weeds.

Water conservation

In 2006 TFS constructed a ground breaking water recycling plant on part of its Kununurra plantations, offering a saving of 7-billion litres of water each year. This initiative was recognised by the Western Australian Water

Corporation which awarded TFS the state wide Remote and Rural Water Award.

TFS has also installed drip irrigation in most sections of its plantations. Irrigation Water delivered by drip irrigation systems is a much more effective use of water than conventional flood irrigation.

ETHICAL BEHAVIOUR

TFS believes that it can be part of a better world, starting with the communities in which we work and operate.

Through an awareness and engagement of all stakeholders, TFS aims to promote a culture of respect and engage in responsible action with its workers, the community and the environment.

The company sees sustainable development as a way of ensuring shared long-term benefits for the community, environment and investors.

Happy Workers

TFS has a team of qualified staff dedicated to the cultivation, processing, management and administration of Indian Sandalwood. Our workers receive ongoing training and rewards to support a productive and innovative work environment.

Our values:

- Respect
- Reliability
- Innovation

Community Development

With sponsorships ranging from local athletics to cultural dance events and regional festivals, TFS is a proud supporter of the communities in which it operates.

TFS continues to deliver economic benefits these communities through employment and training programs that also help to enrich the local community with skills and expertise.

Indigenous Commitment

About half of the Kununurra population is of Aboriginal descent (Australia's indigenous people).

TFS works together with the region's indigenous communities to maximise the social benefits and promote this unique culture.

TFS is a proud foundation sponsor of the Clontarf Football Academy. This innovative program is designed to promote education and good health amongst the indigenous youth of Western Australia, using the team sport Australian Rules Football as a motivational tool. By going to school, young people are able to participate in the Football Academy, a strategy that has dramatically increased the rates of school attendance in the regions where the Academy operates.

TFS is committed to providing work experience and employment opportunities to Aboriginal people in the communities in which we work and operate.



THE TFS GROUP

THE TFS GROUP AIMS TO BECOME THE WORLD'S LEADING PRODUCER OF INDIAN SANDALWOOD AND RELATED PRODUCTS IN A SUSTAINABLE, ETHICAL AND ENVIRONMENTALLY-RESPONSIBLE WAY. THE EXPERIENCED TEAM AT TFS DELIVER FIRST-CLASS PLANTATION MANAGEMENT WITH THE AIM OF PROVIDING INVESTORS WITH THE BEST GROWTH, YIELDS AND RETURNS.

OUR VALUES:

- Best practice management.
- Ongoing research and development into Indian Sandalwood to protect and benefit Growers' investments.
- Assess project risks and maintain and develop processes to limit these risks.

TFS uses research, innovation and expertise to minimise the risks inherent in a pioneering project, with the aim of achieving the best possible outcome for Growers.

In addition to research into cultivation techniques the TFS Group is active in end market development for Indian Sandalwood products.

TFS Corporation Ltd (ABN 97 092 200 854) listed on the Australian Securities Exchange (ASX) in December 2004 (ASX Code: TFC).

The TFS Group is committed to becoming a vertically integrated Sandalwood products company and in July 2008 acquired Mount Romance Australia Pty Ltd, the leading global distiller of Western Australian Sandalwood oil and a producer of Sandalwood consumer products.

ABOUT TROPICAL FORESTRY SERVICES LTD

TFS was incorporated in 1997, and commenced planting commercial plantations on behalf of growers prior to 30 June 1999. Since that time it has established around 6,500 hectares of Indian Sandalwood plantations on behalf of over 3,000 individual Growers and institutional investors. By mid 2013 a further approximately 1,000 hectares of Indian Sandalwood will have been planted on behalf of Growers and companies associated with TFS.

TFS is a wholly-owned subsidiary of TFS Corporation Ltd and has the benefit of an experienced group of Directors (for more information on the Directors, refer to the 'Corporate Management' section of this PDS).



PLANTATION MANAGEMENT

TFS will manage the Project as a contractor for TFS Properties.

TFS:

- is an experienced manager of Indian Sandalwood plantations;
- currently manages Sandalwood plantations across northern Australia covering a total area of around 6,500 hectares; and
- has qualified professional staff with experience in all relevant disciplines.

MANAGEMENT PLAN

The Plantation will be maintained in accordance with a Management Plan. The Management Plan outlines the procedures to be followed to ensure that the Project is carried out in accordance with industry best practice and in a manner designed to both mitigate the Project risks and maximise the growth and yield of the Plantation. The company has obtained certification in ISO 14001:2004 (Environment), ISO 9001:2008 (Quality) and AS/NZS 4801:2001 (Occupational Health and Safety).

KEY PERSONNEL

The plantation management team is made up of people experienced in forestry, agronomy and farm management, with significant experience in Indian Sandalwood and horticulture in northern Australia. The TFS plantation management team now has over 50 full-time employees, with about one third of these holding tertiary qualifications. More details about the skills and experience of the plantation management team are outlined below.

Chief Executive Officer

Frank Wilson – LLB

Frank is the founding Chairman, major shareholder and Chief Executive of the ASX listed TFS Group. For 16 years he held the role of founding principal and Managing Partner of the legal firm Wilson and Atkinson, which has established a reputation as a leading Australian taxation litigation and advisory law firm. Frank is an experienced businessman who has a long-standing involvement in the agribusiness industry. He has been an advisor to a variety of large listed public and private forestry and viticulture groups and has been appointed to the Board of Governors at the University of Notre Dame. There are few people with the same depth of technical and practical commercial experience in the agribusiness sector.

Expert Forester

Peter Kimber – B Sc (Forestry) (1st Class Hons)

Peter is acknowledged as a leading authority on growing Indian Sandalwood in plantations. As Head of the Extensions Branch of the Forests Department of Western Australia, Peter was instrumental in the planning and development of research plantations of Indian Sandalwood in the ORIA in the early 1980's. His central involvement in the Government trials continued as Principal Operations Officer of the Department of Conservation and Land Management (CALM) from 1985 to 1994. Peter brings his extensive knowledge and experience to the role of Principal Forestry Consultant to the TFS Group, which he has held since 2000.

General Manager of Operations

Paulo Correa – M.Eng.

Paulo Correa is the General Manager of Operations for TFS Corporation Ltd. Paulo joined TFS in January 2012, bringing to the position many years of international experience in technical and commercial roles in France, Brazil and Australia. Previously Paulo was the Director of Operations of Yarra Trams in Melbourne Victoria, where he was responsible for numerous departments. Paulo started his career with Air Liquide Brazil, a global leader in gases for industry, health and the environment where he spent 16 years. Paulo is an Engineer and completed his Masters Degree in Engineering. He studied at the Polytechnic University of São Paulo.

Independent Forester

Ray Fremlin – B Sc (Forestry)

Ray has over 45 years experience in forestry. He trained in South Africa attaining a Diploma of Forestry and moved to Western Australia in 1965 where he joined the WA Forest Department. Ray specialised in plantation establishment and silviculture. He rose to a senior management position with the Western Australian Forest Products Commission before joining Great Southern Limited in 2006. He is now a consultant to the forest industry. He has been directly involved in the growth of temperate plantations in Australia and has extensive experience with tree improvement and silviculture in tropical plantations in northern Australia. Ray has also consulted in South Africa, Indonesia and Africa.

Research Development & Regulatory Manager

Andrew Brown – BSc (Organic Chemistry and Pharmacology), MBA

With 27 years of experience in sandalwood oil distillation and the health and beauty, pharmaceutical and brewing industries where he has occupied technical and senior management roles, Andrew has a strong technical and commercial background making him ideal to head the Research and Development Team at TFS. This blend of skills gives Andrew a very commercial approach to research activities which are conducted with the appropriate technical rigour. He has been with TFS since 2008 when the company took over Mt Romance, a commercial Sandalwood Oil distiller where he had been employed since 2006.

Senior Forester

Chris Done – B Sc (Forestry), IFA Member, RPF

Chris set up the State Government's Forests Department in the Kimberley region of Western Australia in 1979, and has lived and worked in Kununurra ever since. He was involved in sowing, planting and growing the first Indian Sandalwood trials in 1980/81 and has had continuous involvement in the progress of this new industry since then. Chris later became the Regional Manager for the Department of Conservation and Land Management and, along with Peter Kimber, was responsible for the continued development of the sandalwood trials. His other duties included managing the region's 2.5 million hectares of national parks and nature reserves, and proposals for the inclusion of new important areas to the conservation estate. He is a Registered Professional Forester (RPF) with the Institute of Foresters of Australia. He came to TFS as an employee in 2005 having previously undertaken consulting and project work for the company.

Senior Forester

Ken Robson – BSc (Biology), ADip App Sc (Forestry)

Ken has recently joined TFS and brings a wealth of experience in tropical forest tree domestication to the business. He is part of the research team at TFS and his main focus is tree improvement through selective tree breeding practices. Ken brings 30 years of forestry experience to the company. He has national and international experience in domestication and silviculture with a range of important tropical tree species. He also brings more than 15 years of research experience working with the sandalwood genus.

Research Officer

Mick Pattison – B App Sc, Grad Cert Statistics

Mick completed a Bachelor of Applied Science at the University of Canberra in 1994, followed by a Graduate Certificate in Statistics at Newcastle University in 2009. Mick worked for a number of government departments, specialising in the fields of experiment design and management, and topographic and soil surveying. He joined TFS in 2009 and is responsible for all aspects of TFS plantation research, including selection, growth, inventory, management and processing.

National Project and Development Manager

Dan Raymond – B Sc (Forestry) (Hons), IFA Member, RPF

Dan completed his Bachelor of Forest Science, with Honours, at the University of Melbourne in 1993. Dan has extensive experience in tropical forestry and has worked internationally as a senior forestry consultant assessing plantation management, infrastructure expansion, carbon offsets, staff training and social and environmental sustainability. He brings knowledge and skills in resource management, project coordination and sustainable forestry practices to his role in steering TFS land development. Dan is responsible for all new plantation and irrigation projects.

Regional Manager WA

Brett Blunden

Brett joined TFS in 2001, bringing highly recognised regional agricultural experience. Brett has in-depth knowledge of the entire sandalwood plantation management process. Following a number of years as Plantation Manager of TFS state-of-art plantation at Kingston Rest, Brett has taken on a new role as Western Australia Regional Manager. In this role he will oversee operations in Kununurra.

Irrigation Manager WA

John Doble – BA Business, (Post Grad. Agricultural Management)

John joined TFS in 2010, bringing extensive agricultural and irrigation experience gained through previous employment on cropping and livestock properties, as well as a lifetime involvement in a family farming enterprise. John is responsible for the successful irrigation of TFS's Kingston Rest plantations, utilising one of the largest pressurised irrigation systems in the Southern Hemisphere and managing the Arthur Creek Dam with storage capacity of 62.5 GL.

Operations Strategic General Manager

Malcom Baker – B App Sci Post Grad Dip App Sci – Ag, IFA Member

Malcom has extensive experience in plantation management roles in both Australia and Papua New Guinea. As well as a lifetime spent in agricultural industries, he possesses qualifications in both graduate and post graduate agricultural studies. Malcom has worked in management in primary production, manufacturing of agricultural products and rural input merchandising, and has extensive experience in both general management and plantation management in tropical areas. Malcom has been with TFS since 2007. Malcom is responsible for major projects, such as harvest, land acquisition and new nurseries and he is also responsible for the 3 years Operations Business Plan.

Seedling Supply & Operations Efficiency Manager

Zoe Higgins – B Sc (Forestry) (Hons)

Following completion of her Forestry degree in 1999 at the University of Melbourne, Zoe gained operational and management experience in commercial plantations in South Australia. She relocated to Kununurra in 2005, and has been heavily involved in the sandalwood industry since then. Zoe joined TFS in 2011. Zoe is responsible to plan, coordinate and quality control of seedling supply from TFS and outsourced nurseries. She is also responsible to control all initiatives aimed at improving efficiencies across all plantations. Zoe works with the Regional Managers to implement best practices based on the outcome of these initiatives.

Nursery Manager

Jessica McAllister – Cert III in Horticulture

Jessica has a horticultural background, and completed Certificate III studies in Horticulture/Conservation Land Management in 2007 at the Southern Queensland Institute of TAFE. Jessica joined the TFS Nursery team in 2008 and became Nursery Manager in 2009. Jess has brought a new level of professionalism to the TFS Nursery and has overseen dramatic improvements in seedling quality and production efficiency. Jess is heavily involved with R&D projects which involves TFSS nursery.

Plantation Manager – Kingston Rest Plantation, WA

Neil Hanson – BA (Hons) Business & Management, Cert IV in Agriculture

Neil first joined the TFS plantation management team as a seasonal worker in 2007. Over the ensuing years, his skills, field experience and further studies have seen him steadily progress through a number of positions within the plantation team. He has recently been promoted to the position of Plantation Manager at Kingston Rest, where he will oversee management of the existing plantation estate, as well as establishment of additional areas.

Plantation Manager Kununurra, WA

Mitchell Firth – B Sc (Forestry), IFA Member

Mitch obtained a Bachelor of Forest Science from the Australian National University in 2005. He joined TFS in early 2007, and has developed sound knowledge and experience in Indian Sandalwood plantation silviculture. Mitch is responsible for all aspects of forestry management in the Kununurra region. Mitch has the responsibility to make sure all resources available (human and material) are used in the most effective way.

Plantation Manager – Safety, Quality and Environmental Field Manager

Natalie McKenzie – Ba App Sc (Forestry)

Natalie joined the TFS team in February 2012. Natalie has spent six years as a Plantation Forester in the Green Triangle Region of Victoria/South Australia. She brings valuable plantation establishment, management and protection experience to TFS. Natalie provides field support and assistance in implementing safety, quality and environment controls across the TFS estate. Natalie is also responsible for all inspections of our contractors, making sure they are compliant with safety, quality and efficiency standards equivalent or above that of TFS. Natalie will also be responsible for general compliance of our operations with the standards we have been certified for (Quality, Environmental and Safety).

Regional Manager – QLD

Matt Barnes – B Ag Sc, IFA Member

Matt completed an Agricultural Science Degree in 1996 at the University of Adelaide. He worked as an agronomist in SA and NT for 8 years providing advice to growers on broad acre cropping, irrigated small seed production and horticulture. Matt joined TFS in March 2005 and has been responsible for providing an agronomic focus to plantation management. Matt has developed significant experience in drip irrigation systems, and has overseen the large scale introduction of these systems into the plantations. Matt relocated to Ayr, QLD in 2011 to manage all aspects of TFS's operational expansion into this new region.

Plantation Manager Dalbeg QLD

Nigel McGrath

Nigel joined TFS in 2012 to assist the Land Preparation Manager in converting the newly purchased sugar cane farms into TFS' first Queensland plantations. Nigel's skills were quickly recognised and he has since been promoted to Plantation Manager. Nigel has a wealth of experience in farming and plantations, having worked on cattle and cane farms in NSW as well as a tea tree plantation for many years.

Regional Manager – NT

Nick Common – B App Sc (Horticulture), Dip Irrigation Agronomy

Following completion of his tertiary studies in 2005 at Massey University in New Zealand, Nick gained extensive technical skills in irrigation design, sales and project management. Nick moved to Australia in 2008 to join TFS, initially in the role of Irrigation Technician in which he introduced extensive improvements to irrigation management and efficiency across the plantation estate. Nick relocated from Kununurra to Katherine to take on the Regional Manager role in the Northern Territory.

Plantation Manager – NT

Dan Firth – B Sc (Forestry)

Following graduation from the Australian National University in 2004, Dan spent four years working in the Federal Government's International Forest Policy Section. He relocated to Kununurra to join TFS in 2011, and gained experience at an operational field level prior to taking on a local Plantation Manager role. Dan also relocated from Kununurra to the Northern Territory.

Farming and Development Manager – NT

Selwyn Farmer

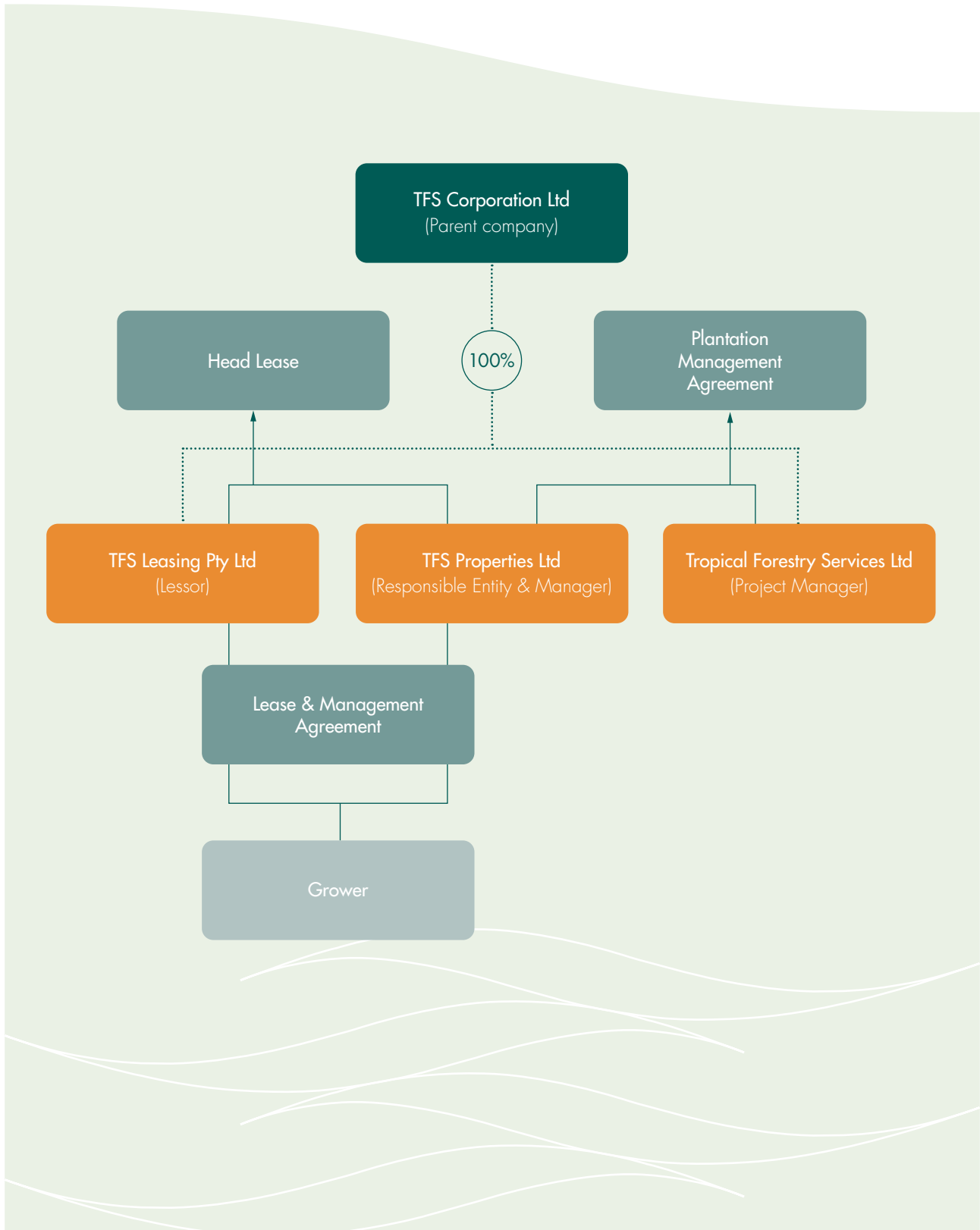
Selwyn has been involved in farming and horticulture for the past 20 years and has joined the TFS team during the acquisition of the PCA Katherine properties where he has been stationed for the past 4 years. Selwyn has extensive experience in all aspects of farming in the Northern Territory with specific knowledge of the recently acquired properties in the Katherine region. His knowledge will be invaluable in farming and land preparation decisions.



CORPORATE MANAGEMENT

PROJECT STRUCTURE

The TFS Corporate Group and specifically the Responsible Entity (TFS Properties) have sufficient financial backing to support the Managed Investment Scheme and enable the Project to succeed. Group financial statements can be obtained from the annual report available on the company website.



DIRECTORS

The Directors of TFS Corporation Ltd, TFS Leasing Pty Ltd, TFS Properties Ltd and Tropical Forestry Services Ltd are persons with strong corporate, legal, and business skills, each of whom are highly experienced in company management.

The Directors, as at the date of this PDS, are:



Frank Wilson – Executive Chairman

Frank is the founding Chairman, major shareholder and Chief Executive of the ASX listed TFS Group. For 16 years he held the role of founding principal and Managing Partner of the legal firm Wilson and Atkinson, which has established a reputation as a leading Australian taxation litigation and advisory law firm. Frank is an experienced businessman who has a long-standing involvement in the agribusiness industry. He has been an advisor to a variety of large listed public and private forestry and viticulture groups and has been appointed to the Board of Governors at the University of Notre Dame. There are few people with the same depth of technical and practical commercial experience in the agribusiness sector.



Ronald Lionel Eacott – Non-Executive Director

Mr Eacott is the Managing Director of Expo Document Copy Centre (WA) Pty Ltd, a leading company in the reprographic industry. Mr Eacott is highly experienced in company management with previous positions including State Manager of Union Steel (seven years) and National Manager (New Zealand) for Elders Pastoral (three years). He was the former State Manager (WA) of Boral Steel and later Boral Cyclone over an 18 year period and plays an active role in the community. Mr Eacott is a Fellow of the Australian Institute of Export and is a past State President for the institute.



Adam Gilchrist – Non-Executive Director

Adam Gilchrist has been one of Australia's best known international cricketers. As the Global Ambassador for TFS Corporation since June 2010, he has been involved in the promotion of Sandalwood based products in high growth countries on the sub-continent such as India and has an understanding of TFS products and their potential in new markets. Mr. Gilchrist was a member of the local steering committee for the Commonwealth Business Forum to be held prior to the Commonwealth Heads of Government Meeting (CHOGM) in October 2011. Mr Gilchrist is currently Chairman of the National Australia Day Council. In 2010 Mr Gilchrist was awarded the Order of Australia (AM) for his services to cricket and charity.



Julius Matthys – Non-Executive Director

Mr Matthys is an experienced senior executive with BHP Billiton. He has held senior roles in iron ore and aluminium marketing with responsibility for global sales and customer relationships. From 2008 to 2011 he managed the Worsley Alumina Joint venture between BHP Billiton, Japan Alumina Associates and Sojitz Corporation. Worsley Alumina is one of the largest alumina refineries in the world producing 3.5 million tonnes of alumina per annum. Mr Matthys has just recently taken up the role of Vice President External Affairs WA for the BHP Billiton Group.



Stephen Atkinson – Non-Executive Director

Mr Atkinson was a founding director and shareholder instrumental in the establishment of TFS in 1997. He was responsible for the provision of legal advice across all corporate and commercial matters relating to the establishment and day-to-day running of the company. Previously a partner of the legal firm Wilson and Atkinson and in 2002 he established a sports management and consultancy business ATK Consultants which has extensive dealings in India, one of the major markets for TFS. Stephen recently rejoined the Board in a non-executive capacity.

COMPLIANCE

Compliance committee

TFS Properties has established a Compliance Committee as required by the Corporations Act. The responsibilities of the Compliance Committee are to monitor to what extent the Responsible Entity complies with the Compliance Plan and to report any breaches to the Directors of the Responsible Entity and in certain cases the ASIC.

The Compliance Committee comprises two external members and one representative of the Responsible Entity.

The Compliance Committee members are:

Ronald Eacott – Chairman

Mr Eacott is the Board's representative on the Compliance Committee (biography provided on previous page).

John O'Brien – External Member

Mr O'Brien is a Chartered Accountant with over 30 years experience in the accounting profession. He is also a Registered Company Auditor who has had experience in auditing a wide range of entities. Mr O'Brien has had extensive prior experience in handling investors' funds in agriculture.

Robert Marusco – External Member

Mr Marusco has in excess of 20 years experience in business management roles. He has a tertiary qualification in accounting and financial services.

COMPLIANCE PLAN

TFS Properties has prepared a Compliance Plan as required by the Corporations Act to ensure that it meets its obligations as a Responsible Entity and that the rights of Growers are protected. The Compliance Plan identifies the obligations under the Corporations Act, the Constitution and the Lease and Management Agreement. The Compliance Plan also identifies risks of non-compliance and establishes measures designed to address these risks. The Compliance Committee meets regularly every quarter.

EXPERT FORESTER

TFS Properties has appointed an Expert Forester, Mr Peter Kimber of Kimber Environment Services. The Expert Forester's report appears on page 60 of this PDS.

SHAREHOLDINGS OF DIRECTORS

The following relevant interests in shares in TFS Corporation Ltd ('TFS Shares') are disclosed (as at 01 November 2012):

- F Wilson, who is a Director of the Responsible Entity, has a beneficial interest in 45,688,379 TFS Shares, being 16.34% of the issued capital of TFS Corporation Ltd.
- R L Eacott, who is a Director of the Responsible Entity, has a beneficial interest in 4,841,201 TFS Shares, being 1.73% of the issued capital of TFS Corporation Ltd.
- A Gilchrist, who is a Director of the Responsible Entity, has a beneficial interest in 2,125,083 TFS Shares, being 0.76% of the issued capital of TFS Corporation Ltd.
- J Matthys, who is a Director of the Responsible Entity, has a beneficial interest in 3,342,500 TFS Shares, being 1.2% of the issued capital of TFS Corporation Ltd.
- S Atkinson, who is a Director of the Responsible Entity, has a beneficial interest in 3,866,668 TFS Shares, being 1.38% of the issued capital of TFS Corporation Ltd.

INTERESTS OF DIRECTORS OF RESPONSIBLE ENTITY

The Responsible Entity is a wholly owned subsidiary of TFS Corporation and therefore Directors do not hold any shares in the Responsible Entity directly. The Directors of the Responsible Entity may receive Director's Fees from the Responsible Entity's own funds.



EXPERT FORESTER'S REPORT

The Directors
Tropical Forestry Services Ltd.
169 Broadway, Nedlands WA 6009

Gentlemen,

This report has been prepared for inclusion in a Product Disclosure Statement to be issued by TFS Properties Ltd. (the Responsible Entity) in respect of the establishment in 2014 of plantations of Indian sandalwood (*Santalum album*) in the tropical north of Australia and their ongoing management.

It has been researched by Peter Kimber of Kimber Environment Services (the Consultant), a forestry and environmental consultancy service that specialises in tropical tree plantations. The Consultant has a first class honours degree in forestry supported by 55 years in forest research, planning and management gained in East Africa and Australia.

The consultant has been closely involved in the research and development of nursery and plantation techniques for the successful cultivation of Indian sandalwood since the mid-1980s.

Kimber Environment Services is retained by Tropical Forestry Services Ltd, an entity associated with TFS Properties Ltd as a consultant to advise the company on nursery management and on the establishment and maintenance of its sandalwood plantations for which it receives payment.

Plantation forestry for the production of Indian sandalwood is a well established industry in the East Kimberley Region of Western Australia where it has carried out on a commercial scale for 14 years.

It has also been trialled successfully in suitable areas in Queensland and the Northern Territory.

The research and development of the techniques needed to grow this parasitic tree in cultivation was started in 1980 by the then WA Forests Department and was continued by its successors, the Dept. of Conservation and Land Management and latterly the WA Forest Products Commission. In addition, Murdoch and Curtin Universities and private forestry companies conducted their own research projects funded by Western Australian government grants.

These endeavours have placed Western Australian forestry at the forefront of world knowledge and experience in the culture of sandalwood.

THE SANDALWOOD TREE

Indian sandalwood occurs naturally in India and Indonesia and to a minor extent in coastal northern Australia where it is suspected of having been introduced many years ago by Indonesian trepang fishermen.

Sandalwood is parasitic and must be grown alongside other host tree species from which the sandalwood tree obtains nutrients and water via root unions with its hosts. Although catholic in its selection of hosts, Indian sandalwood will only flourish and become commercially productive in a plantation situation when provided with host species that have been selected and proven in trials to be exceptionally well suited to the hosting function.

Indian sandalwood is a relatively small tree growing in the shade of its hosts. Grown in plantation for a period of 14 to 16 years it reaches around 10 metres in height and 24 cm in diameter measured near ground level. At this age the valuable, oil-yielding heartwood is well developed and can be harvested commercially.

The oil that is extracted from the heartwood of the tree is extremely valuable and is an essential component of the best of the world's perfumes in which it is used to stabilise the volatile essential oils sourced which are distilled from flowers and which give the perfumes their distinctive scents. There is also a large demand for both heartwood and sapwood for the production of incense sticks.

Of the sixteen species of sandalwood found in the Pacific region and Eastern Africa only two are capable of producing oil that regularly meets the International Standards Organisation standard for sandalwood oil. These are the Fijian sandalwood (*Santalum yasi*) and Indian sandalwood. Tropical Forestry Services proposes to use Indian sandalwood for this project as it has access not only to abundant propagating material from its existing plantations, but also to seed produced from elite trees selected for their rapid growth and early oil production.

THE PROPOSAL

The Responsible Entity proposes to invite subscribers to purchase an interest in timber lots that are to be established on suitable lands in the tropical north of Australia. The products from these plantations may be sold and exported as billets and pieces of sandalwood timber, or they may be processed locally to extract the sandalwood oil.

SUITABLE SOILS AND CLIMATE FOR GROWING SANDALWOOD

Indian sandalwood grows naturally in a tropical monsoonal climate that experiences a wet season with heavy rainfall followed by a dry season of several months duration when no rain falls and temperatures may be very high.

The tropical north of Australia has this type of climate, however, suitable sites for establishing sandalwood plantations are limited to those with reasonably well drained soils and an average annual rainfall of 1,100 mm or more. In areas of less rainfall there needs to be water available to irrigate the plantations.

A further limitation on suitable sites is the risk of cyclones. As a general rule damage from cyclones can be avoided if plantations are located approximately 100 kilometres or more inland.

POTENTIAL PLANTATION SITES FOR THIS PROJECT

The Responsible Entity has infrastructure and access to suitable land at three locations across northern Australia.

The Ord River Irrigation Area in Western Australia where there are already extensive areas of successful Indian sandalwood plantations under irrigation. Suitable soils are limited in area. There is no shortage of irrigation water from Lake Argyle.

The Douglas-Daly area of the Northern Territory where the Responsible Entity has established extensive trials of sandalwood grown under natural rainfall conditions, augmented by trickle irrigation during the establishment phase.

The Burdekin River Irrigation Scheme in Queensland has water available for irrigation and suitable soils varying from loamy sands overlying clay to medium clays. Indian sandalwood has been trialled in Northern Queensland for several years and performs well in this area. The Responsible Entity has already established 500 hectares of sandalwood plantation at Dalbeg which is situated more than 100 kilometres inland in the upper reaches of the Burdekin Irrigation Area.

SEEDLING PRODUCTION AND PLANTING

The Responsible Entity's plantations in the Ord River Irrigation Area in the East Kimberley Region of Western Australia can supply more than adequate seed of sandalwood and its host species to cover this project and a substantial reserve. Their policy is to have at least two years supply of seed in stock at the beginning of the sowing season in the nursery. Seed is stored in a controlled temperature cool room at between 5 and 10 degrees Celsius.

Tropical Forestry Services owns and runs its own up to date nursery which is situated on its property near Kununurra in Western Australia. It has the capacity to produce enough seedlings to plant 600 hectares. Additional seedlings can be raised on contract by commercial nurserymen in Kununurra and in the Burdekin River area of north Queensland.

Seedlings for this project will be trucked from Kununurra to the Northern Territory planting site. For plantings in the Burdekin Irrigation Area in Queensland seedlings are likely to be produced locally by a nursery experienced in raising tree seedlings, including sandalwood.

Planting in irrigated plantations is carried out at the coolest time of the year, between April and July. In plantations dependent on rainfall alone, planting is generally done in the wet season as soon as the top 30 to 40 cm of soil is well moistened.

The planting of the seedlings is done manually, and in some areas it is assisted mechanically by a tractor carrying a tank and a mechanism to inject liquid moisture-retaining polymer into the spot where the seedling is to be planted. This ensures that the seedling does not dry out under adverse weather conditions.

SEEDLING NUMBERS AND PLANTING PATTERN OF HOSTS AND SANDALWOOD

Around 500 sandalwood seedlings are planted on each hectare of plantation. Long-term hosts – those which are to survive until the sandalwood is harvested – are planted at between 350 and 500 per hectare, the number depending on the vigour of the species being used. A short-term host seedling, which can only survive being parasitised for 2 to

3 years, is planted at the rate of one between each two sandalwood seedlings. By the time the short-term host dies the sandalwood have had the opportunity to make root unions with the long-term host trees which then support them.

The rows of trees in the plantation are spaced 3.6 metres apart which leaves wide enough gaps for tractors and machinery to access the plantation for essential operations.

MAINTENANCE OPERATIONS IN THE PLANTATION

Weed Control. The complete control of weeds during the first dry season after planting is critical to the survival, health and vigour of the tree seedlings.

Weed growth within the rows of trees is controlled by a combination of hoeing and hand spraying a mild herbicide using a shrouded spray head to avoid drift. The weeds growing in the space between the tree rows are controlled by shallow cultivation and shrouded spraying of herbicides.

In the second and subsequent years after planting weeds between the tree rows are controlled by slashing, and those within the rows of trees by careful application of herbicide.

Pruning – The short-term host species is vigorous and generally needs its lower branches pruned off in the first year after planting to prevent too much interference with the adjacent sandalwood plants.

The majority of the valuable oil-bearing heartwood is found in the lower two to two and a half metres of the bole (trunk) of the tree under plantation conditions. In order to maximise the growth of this most valuable section trees are pruned to remove all their lower branches.

Sandalwood pruning commences in the first year from planting when it is restricted to the singling of double leading shoots and the removal of extra thick branches to improve the form of the tree. In the subsequent three to four years successive prunings raise the height of the branch-free bole to up to two and a half meters in length.

Irrigation – In those plantations situated in areas with too little rain for satisfactory growth the trees are regularly watered throughout the dry season, either by running water through furrows adjacent to the trees or by using trickle irrigation. Both furrows and trickle tape systems need regular maintenance.

Fertilising – The rather slow growth rate of one of the more desirable long-term host species is boosted by the periodic application of a balanced fertiliser in the first few years after planting to improve its growth rate, and the growth of the adjacent sandalwood trees.

Controlling Pests and Diseases – The Responsible Entity maintains control over insect problems by undertaking regular inspections and assessments of the health of the trees in the plantation. When the number of potentially damaging insects reaches a critical level, a baiting and/or spraying programme is initiated.

Irrigated plantations may be liable to fungal diseases which, if present, are detected during the regular inspections for insect pests. The fungal species involved are held in check by keeping the plantations well drained. Should wet spots occur and symptoms of infection appear, they can be controlled readily by spraying the foliage with a systemic fungicide.

Maintenance of Infrastructures – Water supply channels in furrow irrigated plantations and pumping stations for trickle irrigation both require regular maintenance.

All plantation areas are serviced by a network of access tracks which require maintenance, particularly after the end of the wet season, and the constant control of encroaching weeds.

Where plantations adjoin native vegetation The Responsible Entity maintains wide firebreaks free of all flammable material throughout the dry season.

ESTIMATING THE YIELD OF PRODUCTS FROM SANDALWOOD TREES AND PLANTATIONS

Tropical Forestry Services was contracted by the WA Forests Commission a few years ago to destructively analyse a substantial number of 16 year old Indian sandalwood trees grown in plantation by the Commission on irrigated clay soils in the Ord River Irrigation Area. The study was financed by a grant from the Rural Industries Development Commission.

The data collected and analysed in this study indicates that the total weight of the average tree at age 14 to 16 will be of the order of 110 to 120 kilograms, including branches and roots. The weight of oil-bearing heartwood will be around 20 to 24 kilograms per tree. The average oil content of the heartwood will be of the order of between 3% and 4% by weight.

The heartwood with oil is the extremely valuable product of the tree. The remainder, consisting of sapwood and developing heartwood which is yet to contain extractable oil, also has a market value which seems to be increasing with the reduced availability of sandalwood products.

The yield on a plantation scale will vary from site to site. However, it is expected from the results of the Company's later plantings that of the 500 sandalwood seedlings that were planted on each hectare well over 400 will survive to the age of harvesting.

Part of the oil-bearing heartwood is found in the underground parts of the tree namely the butts and larger roots. Harvesting therefore will include recovering these products which means the trees will have to be dug or pulled out of the ground.

RISKS AND RISK MANAGEMENT

Climatic Risks – Tropical northern Australia is an area prone to the development of cyclones. The extreme winds they generate are capable of damaging tree plantations. Cyclones develop over the sea and inflict their greatest damage on and near the coast. Once they cross the coastline and travel inland they rapidly lose their strength and decline into rain bearing depressions. The Responsible Entity only establishes its sandalwood plantations well inland to avoid damage from this source.

Fire – The savannah woodland areas of northern Australia experience grass fires almost annually. Such fires may enter and damage a sandalwood plantation that is unprotected.

Where a plantation adjoins native bush the fire risk is minimised by constructing wide fire breaks which are maintained free of all flammable material throughout the dry season.

In the unlikely event of a fire entering a plantation staff and workers are provided with light-duty fire-fighting equipment which can be mounted on the tray of a utility vehicle in a matter of minutes. Staff also receives training in fire prevention and fire control provided by professional foresters, all of whom are well versed in handling forest fires.

Termites – Some of the soil types that are suitable for growing sandalwood may harbour the destructive termite *Mastotermes darwiniensis*. Effective control measures have been developed by forestry companies growing African mahogany plantations and by the agriculture profession. Both systems are based on continuous baiting for the termite, using either drums packed with pine offcuts or by surrounding the plantation with a peripheral planting of Cassava, a tropical tuberous shrub. In both cases when the insects show their presence the site is treated with a registered termiticide.

General – All the technology to be applied to the establishment and maintenance of the sandalwood plantations to be grown under this project has been developed and tested in Australia over a period of 25 years. It has been proven also by 14 years of experience in producing commercial plantations in Western Australia. The Consultant has been closely involved in the various stages of development and regards the techniques and protocols which have been developed and which will be adopted for this plantation project to be robust and reliable.

STAFF AND MANAGEMENT

The Tropical Forestry Services team in the field is headed by the General Manager, Forestry Operations who is experienced and highly effective in the field of forestry/agribusiness project management, in staff control and in problem solving. Plantation activities are the responsibility of the respective forestry trained Regional Managers in each of the three States; Western Australia, Northern Territory and Queensland.

Each plantation unit of several hundred or more hectares is run by a professionally trained forest manager and subordinate staff.

Research and development is ongoing in the hands of agronomists and forestry research and inventory experts.

In my opinion this team has proven themselves more than adequate to run large sandalwood plantation projects.

REVIEW OF PAST PROJECTS MANAGED BY THE TFS GROUP

The first Indian sandalwood plantation was established by the Responsible Entity in 1999. Due to an unsatisfactory selection of host species and an equally unsatisfactory configuration of sandalwood and hosts in the plantation, survival rates were poor. To compensate for the likelihood of the plantation not meeting yield estimates, the Responsible Entity established an additional 25 hectares of plantation.

Since then plantations have been established annually under the Tropical Forestry Services flag and have demonstrated an increasing level of competence in establishing and managing this rather difficult species. Tropical Forestry Services is now the major manager of sandalwood plantations worldwide.

The projects designated TFS 2005 and beyond constitute by far the largest area of plantation established and managed by the Responsible Entity. From this date on, the Company also increased the number of sandalwood seedlings planted from 463 to 505 per hectare.

The 2010, 2011 and 2012 planting seasons produced exceptional results. The survival of sandalwood seedlings in the first year after planting exceeded 90 percent and host survival was more than adequate.

The 2011 and 2012 planting programmes were widely located: on the Ord River Irrigation Area, on a property 70 kilometres southeast of Kununurra, in the Douglas Daly area of the Northern Territory and in the Burdekin Irrigation Area in Queensland. Together they covered an area well in excess of 2,500 hectares. The majority of these plantation sites have a different suite of soils to the clays of the Kununurra area. The responsible entity had no difficulty in adapting its operations to suit the new sites and to accommodate the wide geographic separation of the new plantings.

DISCLAIMER

Kimber Environment Services has prepared this report to bring to the attention of potential subscribers to the project an overview of the activities and operations necessary to achieve a successful outcome, and to bring to their attention any risks that may arise in the establishment and on-going management of the project.

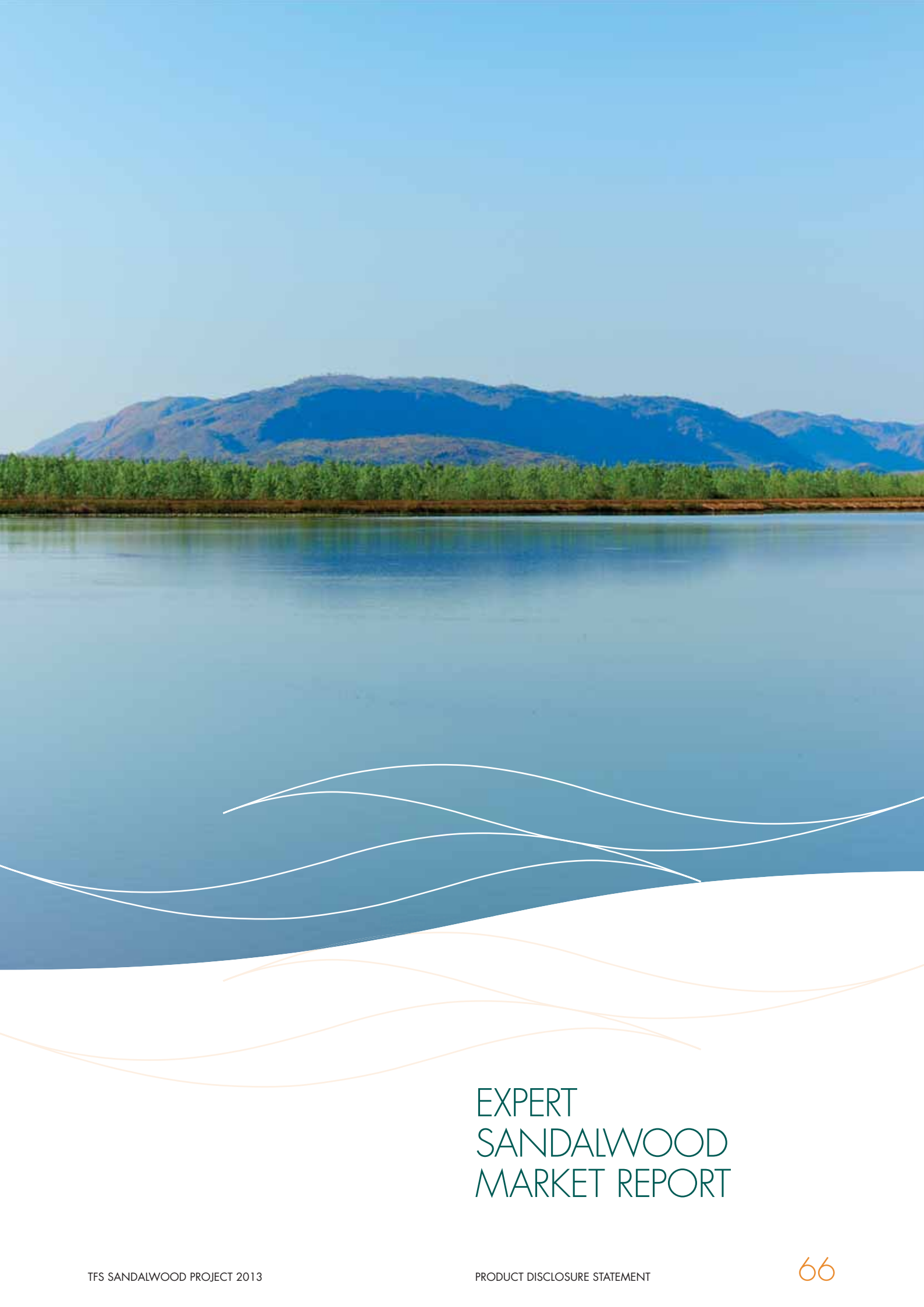
The report makes no comment and does not purport to make comment on the financial, taxation and product marketing aspects of the project.

Kimber Environment Services gives no assurance or guarantee that the proposed plantation regime and its outcomes will be as predicted.



Peter Kimber, BSc (Hons Forestry), MIFA
Kimber Environment Services

17th July 2012



EXPERT SANDALWOOD MARKET REPORT

H.S. Anantha Padmanabha
Forestry Consultant
#31, AMBIKA, BSK 3rd Stage
Bangalore-560085, INDIA

Dear Sirs,

MARKET REPORT ON SANDALWOOD

This report has been prepared for the inclusion in a Product Disclosure Statement ('PDS') to be issued by TFS Properties Ltd for the TFS Sandalwood Project 2013.

I am a qualified scientist with over 35 years experience in forestry in India. I was a senior scientist at the Institute of Wood Science and Technology in Bangalore (India) from 1964 to 1998 and I was responsible for guiding research projects on sandalwood, including but not limited to techniques of growing sandalwood, disease, and pests affecting sandalwood. I have co-authored books on sandalwood and have published over 150 publications in both Indian and International Journals. From 1994 to 1998 I was designated Chief Technical Advisor for sandalwood projects with the World Bank FREE project (ICFRE) in India. I am currently a consultant to Karnataka Soaps and Detergents Ltd, Bangalore, a major long-term buyer of sandalwood who manufactures sandalwood oil, billets and Mysore Sandal Soap. I have been attending sandalwood auctions to assess and buy quality sandalwood for over 10 years.

I am a suitably qualified person to provide information on sandalwood markets and prices both past and present, whilst being well placed to consider trends into the future.

I have no financial interest in TFS, with my financial arrangements limited to the provision of this report and some other general consultancy work.

SANDALWOOD – A VALUABLE COMMODITY

Sandalwood and its oil has been one of the most valuable and wanted perfumery materials in the world from the earliest times of civilisation. Powder of Indian sandalwood (*Santalum album*) heartwood, upon distillation, yields what is known as 'East Indian Sandalwood Oil' which is highly rated for its fixative properties and for its persistent, heavy, sweet, woody scents. As a good fixative agent, it will also bind other odour molecules to it and impart its characteristic properties on them.

Indian sandalwood fetches the highest export price of any Indian forest product.

HABITAT AND PROPERTIES

Apart from India, *Santalum album* can be found in Indonesia, Sri Lanka New Caledonia, Fiji Islands, Philippine Islands, Mauritius and the Northern Territory of Australia. In India, sandalwood is found throughout the length and breadth of the country but particularly in South India.

HEARTWOOD FORMATION

The Indian sandalwood tree is harvested for its heartwood, which is rich in fragrant oil. The heartwood is found in the centre of the roots, trunk and major branches and is surrounded by sapwood. The formation and development of heartwood is dependent on age, growth, soil and ground moisture; and genetic factors seem to play an important role.

I have considered the TFS Plantation Management Plans, and have reviewed the TFS plantations recently. I am of the opinion that the forecast of an average yield of around 27kg of heartwood per Sandalwood tree is achievable in the plantation time frame.

I also refer to the conclusion made in the recent research article "Indian Sandalwood" published by Andrew Brown in the journal *Perfumer & Flavourist* – "The investigation found that sandalwood grown under plantation conditions in the ORIA produced commercial yields of heartwood and sandalwood oil that are of quality suitable for commerce. The investigation found a number of good correlations between the diameter bark at 20cm merchantable mass yield and heartwood yield"

The heartwood is described as astringent, bitter, antipyretic, moderately hard, heavy, durable, slow seasoning, pleasantly and strongly scented, yellow or brown in appearance, even textured (straight, close grains and uniform fibres) with an oily feel and almost free from knots. Once harvested, a sandalwood tree will need to be seasoned – that is stored – for six months or greater to provide for moisture loss.

COLOUR OF HEARTWOOD AND OIL CONTENT

In trade, superiority of wood is generally judged based on colour and the portion of the tree from which it is taken. Sandalwood's heartwood ranges in colour from light yellow to dark chestnut brown, with merchants preferring the light brown to yellow colour.

Colour of wood	Oil (%)	Santalol* (%)
Yellow	2.7 – 3.5	90
Light brown	2.5 – 6.0	85 – 90
Brown	About 2.5	Less than 85
Dark Brown	less than 2.5	75-85

*Alcohol contained within sandalwood oil.

Wood with higher oil content will receive a greater sale price than that with lower oil content.

I have viewed the TFS plantations, and have analysed trees at the age of 3 years for oil, and can confirm that analyses have proven the presence of oil within those trees – earlier than would normally be found in a natural environment in India.

Core samples from 31 six-year-old Indian Sandalwood trees from TFS plantations were analysed for the yield of sandalwood oil content, at the Institute of Wood Science in Bangalore. In 4 cases, the oil yield was over 2% which is exceptional for trees of that age. Seventeen of the samples had 0.5% oil content or better. In all but three cases, evidence of oil was detected. These results auger well for the future of the Indian Sandalwood industry in the ORIA, as in India as such consistent oil indications would not be expected in trees so young.

Analysis of sandalwood oil distilled from trees of age 12 to 13 years showed higher content of santalols with good odour profile acceptable to perfumery industries.

Heartwood is contained within the trunk, butt, roots and major branches. The oil content in the butt and the roots is slightly more than in the trunk and the branches. It is said that one tonne of good sandalwood roots and butt will yield 55 to 60 kgs of oil; whereas the branches would yield a lower percentage of oil. Within the tree, there will be slight progressive reduction in the oil content from roots to butts to stem and ultimately to the branches.

DEMAND FOR SANDALWOOD

The demand for Sandalwood is centered on a number of markets in India and around the world.

The majority of wood is sold for the extraction of sandalwood oil, however the heartwood is also used for carving and religious uses. Other products from the tree are also sold into a variety of markets in India and internationally.

FINE FRAGRANCE

Powdered heartwood upon distillation yields East Indian sandalwood oil, which is a highly priced raw material in the perfumery industry. In perfumery, it is valued for its non-varying composition and fixative properties and for its persistent heavy sweet, woody scent.

Due to the limited supply of Indian Sandalwood, the demand for oil is higher than the current levels of consumption in the global fragrance, cosmetics and aromatherapy industries.

Current exports of Indian Sandalwood oil are very limited. It achieves a premium price of A\$2,500 per kilogram in these export markets, compared to a figure of A\$2,000 per kg in Indian markets.

The amount of oil exported today is very small compared to 1970 when India officially exported over 100 tonnes of Indian Sandalwood oil (illegal quantities may have been much higher) mainly for use in the global fragrance and cosmetics industries.

It is expected that if greater supply of Indian Sandalwood oil is available from plantation sources for the global fragrance, cosmetic and aromatherapy sectors markets will use more Indian Sandalwood oil, driven by consumers in Asia and Europe who are becoming increasingly conscious of their environmental footprint and requesting the use of only natural ingredients.

ATTARS

The production of attars consumes around 60% of India's annual supply of Indian Sandalwood oil; this is a traditional Indian industry where by natural Sandalwood oil and flower oil are blended through a process of distillation.

The strong demand for Sandalwood oil-based fragrances in the chewing tobacco and pan masala (mouth fresheners) industries has resulted in 90% of the attars produced being consumed by these industries. When greater volumes are available from plantation sources the demand for natural fragrances and growing wealth of Indian consumers may again stimulate the use of attars as a personal fragrance.

BETEL NUT (PAN MASALA, MOUTH FRESHENERS)

Chewing flavoured betel nut (pan masala) is extremely popular in Asia particularly in India, where the pan masala industry has grown at a rate of 25 – 30% per annum over the last 30 years. Sandalwood oil is a popular ingredient in pan masala, used to add flavour and fragrance to the product. This market is expected to continue to grow over the next 5 years.

Chewing tobacco also remains a major market for Sandalwood oil in India, Southern Asia and the Middle East. Chewing tobacco is consumed by up to 20% of the population in these regions.

Due to shortages in supply some attar, pan masala and chewing tobacco companies are forced to use the oil from inferior Sandalwood species or fragrant woods to make up the estimated 120 tonnes of Sandalwood oil used by the chewing tobacco and pan masala industries. Many of these companies report that they would buy Indian Sandalwood oil if available due to its higher quality and more effective properties.

Due to the short supply of natural oil, some industries making incense sticks and pan masala (scented chewing tobacco) have also switched over to synthetics, unaware of the harmful effects to human beings.

SOAPS AND TOILETRIES

The good fixative properties of Sandalwood oil are due to its high boiling fragrant constituents and santalols (which have a high boiling range). The oil is used extensively in the cosmetics industry in the manufacture of soaps, face creams, toilet powders and air Fresheners.

Between 10 and 15 percent of the total Indian Sandalwood oil produced is used in the manufacture of soaps and toiletry products. Resinoid, a product extracted in low concentrations from "spent powder", is also a valuable ingredient valued at A \$100,000 per tonne, and is used in the production of soaps and toiletries.

CARVING AND RELIGIOUS USES

Sandalwood is one of the finest woods for carving and turning to intricate workmanship. Sandalwood is used for carving idols and utility items like furniture, jewel boxes, cabinet panels, chess boards, pen holders, paper weights, picture frames, caskets, wall plaques and other curios.

It is estimated that around 800 tonnes of heartwood can be consumed by India's carving industry. Demand for Sandalwood carvings is increasing in India and internationally. It is expected that China will be a major market for finished Sandalwood carvings and for heartwood suitable for carvings. Heartwood logs suitable for carving achieve premium prices of over A\$100,000 per tonne.

Sandalwood has many important cultural uses. Sandalwood paste is smeared on the forehead during puja (prayer), and used as a cleansing agent for "Sins" and used in funeral pyres by Hindu's. Muslim countries use Sandalwood during burial in order to ensure a quick ascent of the soul to heaven. The Chinese use sandalwood in religious ceremonies and the Japanese also use it to honour Buddha and so on.

INCENSE STICKS

Powdered heartwood from which the oil has been extracted is known as "spent charge" and is used in the manufacture of incense sticks, which are burned during religious ceremonies and for meditation. Incense has cultural and religious significance in Asia where; it is burnt by millions of people as part of daily religious ritual, amounting to billions of sticks burned each year.

The spent powder is further ground in to fine powder and with other additives a value added product "Dooop" is made for burning, which is gaining popularity in Asian countries.

It is estimated that more than 10, 000 tonnes of spent charge and sapwood (white chips) that is removed from the heartwood is currently used within the Indian incense market alone, with the demand for spent charge exceeding the current supply. Spent charge is a highly saleable commodity, valued at A\$2,000 per tonne, while sapwood achieves prices of up to A\$2,500 per tonne.

MEDICINAL AND THERAPEUTIC USE

Medicinally, sandalwood is used as an antiseptic, antipyretic, diuretic, and expectorant stimulant and for treatment of bronchitis, gonorrhoea and urinary infections. Sandalwood is an important ingredient in Indian Ayrvedic medicine and Traditional Chinese Medicine, both of which are gaining popularity in western cultures. Pure sandalwood oil is used in Aromatherapy.

HARVEST OF SANDALWOOD IN INDIA

In India, the proportion of wood harvested officially is small in proportion to that illegally harvested. As the wood has become increasingly valuable, the amount of wood illegally harvested has grown and this has in turn necessitated a reduction by government of its annual, harvest due to concerns over sustainability.

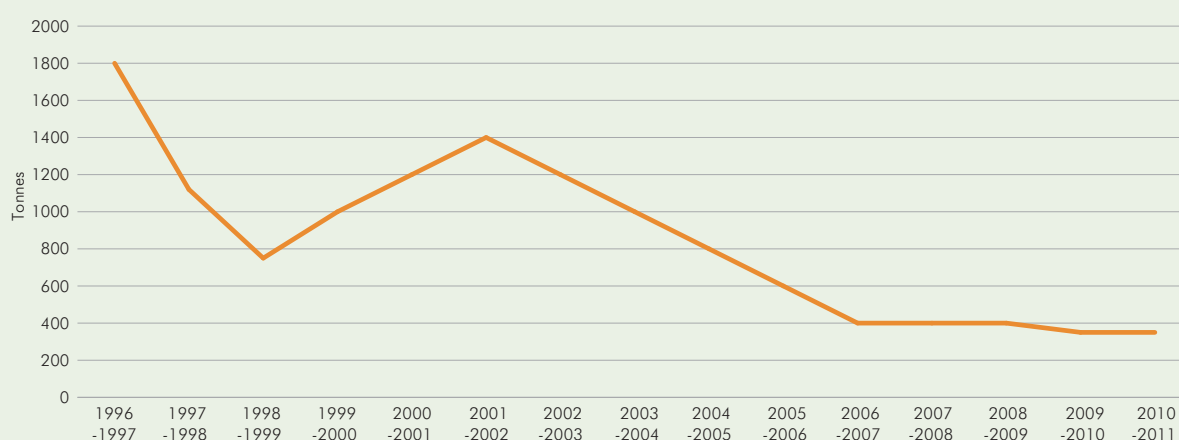
However, it is estimated that the annual official harvest of sandalwood is currently about 400 tonnes, yet total production is approximately 2,000 tonnes per annum. The difference between the government harvest and the estimated annual harvest is approximately 1,600 tonnes and is due to that which is illegally harvested.

During 1958 to 1970 India was officially producing nearly 180 to 200 tonnes of oil, with the total production (legal and illegal oil) estimated to be much higher, meeting 90 percent of the world demand. Official production of Indian Sandalwood oil has fallen over the years and since 2004 has remained at a low level of 25 tonnes per annum.

The size of the illegal harvest is difficult to prove. However newspaper reports describe harvests of this size, and greater. Further, there are some 10 to 15 sandalwood oil distilleries throughout India, including areas where sandalwood trees are not found.

Concerns are held over the sustainability of current sandalwood harvests unless the illegal harvesting can be restricted. Sandalwood is on the endangered list in India, but there has been little effort to encourage further growth.

Annual Government Sandalwood Harvest, India



RATE OF DEPLETION OF WORLD RESOURCE

Apart from India, *Santalum album* is found in Indonesia, Australia, Philippine Islands and Sri Lanka. Indian contribution to the market is large compared to Indonesia and other countries.

The rate of depletion of India's sandalwood resource is very rapid and is because of illicit felling, biotic interferences (such as fire, grazing, browsing and hacking) and spike disease.

The level of annual government harvest illustrates the depletion of the resource, which has been in decline over the past 13 years.

Efforts have increased to raise new plantations, with the State Government amending ownership laws to vest ownership with the plantation owner. However, the Government has retained control of when the trees can be harvested and to whom to sell.

In Indonesia, there has been a sharp decline in the production of sandalwood over the past 12 years. To prevent a collapse of the established industries they may have to import wood from Australia.

Due to high domestic demand and less supply, merchants have compromised with the alternate material from Australia, Africa, West Indies and other countries. The import of substitutes was more than 3,000 tonnes up to mid 2006. By adding Indian and imported Sandalwood the quantity of wood must have crossed over 6,000 to 7,000 tonnes however the superior qualities of Indian Sandalwood (*Santalum album*) make it the preferred ingredient.

Already the long-term supply of one substitute, *Osyris* from Tanzania and Kenya, is threatened and government regulations have been implemented in these countries to slow the deforestation.

EXPORT OF SANDALWOOD FROM INDIA

The Government of India controls the export of sandalwood and oil. Increasing domestic consumption of Sandalwood in India has imposed restrictions on the export of oil and wood.

At present sandalwood material comes from Tamil Nadu, Karnataka and Kerala State in India. The quantity of wood auctioned every year depends on the extracted stock position. The sale of sandalwood in 2011 was reduced to 300 tonnes from 1,400 tonnes in 2003. The concerned Forest Departments has negligible stock of unfinished wood with which to hold regular auctions.

The demand for Indian Sandalwood oil is predicted to be much higher than the current levels of consumption in export markets. International demand for Sandalwood oil is growing as an ingredient in the traditional markets of perfumes, soaps and toiletries, but also within new markets such as pharmaceutical applications, aromatherapy and natural cosmetics.

MARKET TRENDS

From 1990 to 2011, the sale price of sandalwood in India has increased from A\$5,100 per tonne to A\$111,893 per tonne. This rise in sale price, which has become a trend over the past few years, is due to increased demand for sandalwood and its oil. It is likely that this trend will continue due to dwindling supplies.

PRICE TREND (AVERAGE)

	Amt Earned – AUD
1990 – 1991	\$ 5,100
1991 – 1992	\$ 7,600
1993 – 1995	\$ 9,500
1996 – 1997	\$ 17,500
1998 – 1999	\$ 22,200
1999 – 2000	\$ 22,000
2000 – 2001	\$ 30,900
2001 – 2002	\$ 36,800
2002 – 2003	\$ 54,600
2003 – 2004	\$ 58,700
2003 – 2004	\$ 58,300
Jan 2005	\$ 85,300
Jul 2005	\$ 93,200
Apr 2006	\$ 105,451
May 2007	\$ 98,390
Dec 2007	\$ 107,985
Nov 2008	\$ 110,000
Sept 2009	\$ 115,000
Feb 2010	\$ 103,142
Mar 2011	\$ 111,893

I am of the opinion that price rise that we have seen in recent years are unsustainable in the long term. Taking a very conservative approach to the price trend, an annual price increase of at least 5 percent per annum is achievable and sustainable into the near future.

INTERNATIONAL PRICE TRENDS

Prices in the regulated Indian market are lower than the prices achieved in the international market. Currently sandalwood has to be sold to other countries above the domestic auction price. Similarly, the price of Indian Sandalwood oil is around A\$2,500 per kilogram on the international market.

INFORMATION ON THE CURRENT DEMAND

Evidence suggests that current demand for Indian Sandalwood is much higher than current consumption levels due to declining supply from India. It is estimated that the global demand for Indian Sandalwood is well in excess of 8,000 tonnes per annum supported by growth in demand in the global cosmetics, fragrance and toiletries market, plus prosperity in India, Taiwan and China.

Due to the lower oil content of plantation-grown trees at age 15 years, a larger quantity of plantation grown heartwood may be required to satisfy the global demand for oil, perhaps in the order of 12,000 to 13,000 tonnes of plantation grown heartwood.

In India, alone the demand for Sandalwood is estimated to be 5,000 tonnes per annum to satisfy the multitude of domestic Sandalwood markets. Consumption of Indian Sandalwood (*Santalum album*) in India has fallen below 3,000 tonnes due to decreasing supply, deforestation and the lack of a sustainable plantation industry.

The supply is declining and the demand is increasing in both domestic and international markets for wood and oil. This gap between the supply and demand is expected to continue to cause ongoing price increases.

It may be possible to meet the growing demand of this natural essential oil if new plantations with suitable management practices are not raised elsewhere.

My assessment of the demand for Indian sandalwood does not include demand in the Indian cremation and worship market for artificial or fake sandalwood that is marketed as genuine sandalwood. Nor does it include the potential demand from the western pharmaceutical market for sandalwood oil for therapeutic use in dermatology products.

EFFECT OF WOOD PRODUCTION FROM AUSTRALIAN PLANTATION PRODUCERS

I have also been asked to consider the issue as to the ability of the Australian sandalwood plantation to enter the market place for sandalwood, and the potential impact on prices with their entry.

It is important to note that due to the lower oil content of plantation grown wood (due to reduction in harvesting period), there is a greater requirement of plantation-grown heartwood than heartwood grown in the wild. For example, 2,400 tonnes of heartwood grown in the wild would be required to produce 120 tonnes of oil. Around 4,000 tonnes of plantation-grown heartwood would be required to produce the same amount of oil.

I have considered that perhaps there might be 900 Hectares per annum harvested, which would equal approximately 9,000 – 10,000 tonnes of heartwood per annum.

As noted throughout this report I have estimated the market supply as currently at 2,000 tonnes per annum but diminishing, with the global demand estimated to be 8,000 tonnes (equal to around 13,000 tonnes of plantation-grown heartwood) or more, and increasing annually.

As mentioned in my future demand predictions, in my opinion the 9,000 – 10,000 tonnes per annum of sandalwood production from TFS will be easily absorbed into market at that point of time. The re-emergence of China as a major user of Indian Sandalwood will require additional production to meet this demand.

It is my opinion that this supply will not affect the long term pricing of sandalwood though there will need to be marketing efforts made by the Australian producers to maximise their realisable sale. TFS has been very proactive in its marketing efforts to date, which has already led to considerable interest from international buyers for TFS-grown *Santalum album*.



H.S. Anantha Padmanabha
8th August 2012



SUMMARY OF MATERIAL AGREEMENTS

This Section contains summaries of the principal terms of material agreements that relate to the Project. The material agreements are:

- (1) the Constitution;
- (2) the Compliance Plan;
- (3) the Lease and Management Agreement;
- (4) the Agreement for Sub-Lease;
- (5) the Plantation Management Agreement; and
- (6) the Head Lease.

The whole of the provisions of these agreements are not repeated in this PDS. Copies of these agreements are available for inspection at the registered office of the Responsible Entity during normal business hours.

1 THE CONSTITUTION

The Constitution establishes and governs the Project, and operates as a deed binding on all of the Growers of the Project and the Responsible Entity. In compliance with the Corporations Act, the Constitution has made adequate provisions for those matters referred to in section 601GA of the Corporations Act.

The Constitution includes provisions to the following effect:

1.1 The Responsible Entity

The Responsible Entity is appointed and agrees to act as responsible entity of the Project.

1.2 Application Price

To acquire a Sandalwood Lot in the Project and become a Grower an Applicant must pay the applicable Fees (referred to in the Constitution as the 'Application Money' and referred to in this PDS as the Establishment Fee). Refer to the 'Fees and Other Costs' section of this PDS for details of the Establishment Fee.

1.3 Creating the Funds

The Responsible Entity must create (or instruct a custodian to create) an Application Fund (to hold the Establishment Fee and the Upfront Annual Fee and Upfront Rent pending acceptance of Applications), a Subsequent Establishment Payment Fund (to hold 50% of the Establishment Fee from acceptance of Applications), an Upfront Payment Fund and a Proceeds Fund (to hold the Upfront Annual Fee and Upfront Rent from acceptance of Applications) and a Proceeds Fund (to hold the proceeds from the sale of the Forest Produce).

1.4 Project Property

All Project Property must be held by the Responsible Entity for the Growers or alternatively by an agent appointed by the Responsible Entity. The property for each Scheme will be kept separate and distinct from the property of any other Scheme.

1.5 Complaints

The Responsible Entity must appoint a Complaints Handling Officer to deal with complaints made by Growers. The Responsible Entity must within 5 Business Days after receiving a complaint from a Grower, write to the complainant either to acknowledge the complaint or respond fully to the complainant in respect of the complaint made.

The Responsible Entity must attempt to respond fully to the complainant within 10 Business Days after the acknowledgement of the complaint is made by the Responsible Entity. The Responsible Entity will provide the complainant a final response within 45 days of receiving the initial complaint. If a complaint cannot be resolved to the satisfaction of the complainant then the complainant may proceed under the dispute resolution procedures contained in the Constitution, lodge a complaint with the Financial Ombudsman Service (FOS) or take whatever other action is open to the complainant under the general law.

1.6 Winding-Up

The Responsible Entity must wind up any Scheme or the Project or cause any Scheme or Project to be wound up in any of the following circumstances:

- (a) on the direction of the Growers in the Scheme or Project in accordance with section 601NB of the Corporations Act;
- (b) if the Responsible Entity considers the purpose of the Scheme or Project has been accomplished or cannot be accomplished in accordance with section 601NC of the Corporations Act;
- (c) a court orders the Scheme or Project to be wound up pursuant to section 601ND of the Corporations Act;
- (d) any of the circumstances set out in section 601NE of the Corporations Act apply such that the Responsible Entity is required to wind up the Scheme or the Project; or
- (e) in any other circumstances provided for under the Corporations Act.

To wind up the Project (or Scheme) the Responsible Entity must convert to money all Project Property, deduct all costs, fees, expenses and other money in accordance with the Constitution and the Corporations Act and then divide the balance amongst Growers according to each Grower's Proportional Interest in the Project (or Scheme).

1.7 Fees and Expenses

The Responsible Entity is entitled to be paid, in respect of any Scheme, from Project Property (for that Scheme) those fees provided for in the Constitution and any Lease and Management Agreement by way of remuneration for carrying out its duties and obligations under the Constitution or any Lease and Management Agreement. The Responsible Entity is entitled to be paid in respect of any Scheme, from, or reimbursed from Project Property (for that Scheme) for all costs, charges, expenses and outgoings that are incurred by the Responsible Entity in establishing, administering and/or winding up the Scheme.

1.8 Indemnity

The Responsible Entity has a right of indemnity out of the Project Property for any Scheme in respect of any liability incurred by the Responsible Entity in the performance of its duties in respect of the Scheme and all fees payable to and costs recoverable by the Responsible Entity under the Constitution or any Lease and Management Agreement in respect of the Scheme.

1.9 No power to borrow

The Responsible Entity does not have power to borrow for the purpose of the Project or any scheme.

1.10 Application Money

Application Money is to be paid in full at the time of lodging an Application, unless the Responsible Entity exercises its discretion to permit instalment payments of Application Money.

All Application Money is to be paid by Applicants directly to the Responsible Entity who must place that Application Money in the Application Fund. Only when all of the required conditions that are outlined in the Constitution are satisfied can the Application Money be released to the Responsible Entity.

1.11 Lease and Management Agreements

The Responsible Entity must prepare a Lease and Management Agreement as soon as practicable after its acceptance of an Application. The Responsible Entity must execute the Lease and Management Agreement or Agreement for Sub-Lease for itself and on behalf of the Applicant pursuant to the power of attorney granted to the Responsible Entity by each Grower upon Application, and ensure that the Head Lessor and Lessor execute the Head Lease.

1.12 Releasing Application Money

Prior to releasing any Application Money held by the Responsible Entity, the Responsible Entity must be reasonably satisfied that:

- (a) the Lease and Management Agreement has been duly completed and executed by all parties;
- (b) the Head Lessor is the registered proprietor of all of the land that is to be sub-leased;
- (c) there is an existing lease agreement between the Head Lessor and the Lessor over the land that includes the land that is to be sub-leased;
- (d) the land that is to be sub-leased is not subject to any encumbrance or restriction which detrimentally affects the interests of an Applicant and which is not disclosed in the PDS;
- (e) there are no outstanding material breaches of any of the provisions of the Constitution which detrimentally affects the interests of an Applicant; and
- (f) any minimum subscription which is referred to in the PDS has been obtained.

Upon being satisfied of the matters listed above the Responsible Entity must release the Application Money within 5 business days and apply it in payment of the Fees payable under the Lease and Management Agreement.

If any Application Money has not been released by the end of the calendar quarter during which the Application was made, the Responsible Entity must refund the unreleased Application Money and the Upfront Annual Fee and Upfront Rent to the Applicant within 20 Business Days of the end of that quarter.

1.13 Release of Upfront Annual Fee and Upfront Rent

If the Responsible Entity becomes insolvent and therefore unable to provide the Ongoing Services in that year of the Project, upon the passing of an extraordinary resolution of the Growers directing the Independent Custodian to release the Upfront Annual Fee, the Independent Custodian must release the Upfront Annual Fee to the entity managing the Sandalwood lots to be applied in satisfaction of the Annual Fee that is owing to the management entity for the following year of the Project.

If the Responsible Entity or TFS Leasing becomes unable to pay the Rent owing under the Lease and Management Agreement or a Head Lease, upon the passing of an extraordinary resolution of the Growers directing the Independent Custodian to release the Upfront Rent, the Independent Custodian must release the Upfront Rent to the relevant Head Lessor to be applied in satisfaction of the Rent that is payable under the Head Lease.

If there are funds remaining in the Upfront Payment Fund at the commencement of Year 14 of the Project, the Independent Custodian must release those funds to the Responsible Entity to be applied on behalf of the Growers towards the payment of the Annual Fee and Rent for Year 14 of the Project.

1.14 Distribution of the Proceeds Fund to Growers

Pursuant to the terms of the Lease and Management Agreement the Responsible Entity must deposit the proceeds from the sale of the Sandalwood into the Proceeds Fund before payment of all relevant fees and expenses and distribution of the remainder to Growers.

1.15 Power and Duties

The Responsible Entity must:

- (a) perform the obligations that are imposed on it in the Lease and Management Agreements;
- (b) ensure that all services which are required of it under a Lease and Management Agreement are performed in a proper and efficient manner;
- (c) manage the business, investments and affairs of each Scheme and the Project; and
- (d) ensure any goods or services which are required to be provided or performed under the terms of the Lease and Management Agreement are provided or performed in accordance with any contractual rights of Growers and the terms disclosed in this PDS.

1.16 Limitation of Liability

To the extent permitted by law the Responsible Entity is not liable for any loss or damage to any person arising out of any matter where, in respect of that matter:

- (a) it relied in good faith on the services of, or information or advice from any person appointed by it;
- (b) it acted as required by any law; or
- (c) it relied in good faith upon any signature, marking or documents.

1.17 Appointment of Agents

The Responsible Entity may appoint any person to perform any task or carry out any services it thinks fit, but the Responsible Entity is taken to have done (or failed to do) anything that any person appointed by it has done (or failed to do) because of that appointment.

1.18 Transfer and Transmission

Assignment of interests in the Project is governed by the terms of the Lease and Management Agreement. Clause 21 of the Constitution contains details of certain administrative and procedural matters relating to assignment. Clause 22 of the Constitution deals with the transmission of the Grower's interests in the event of death, bankruptcy or mental incapacity of a Grower. All matters relating to transfer or transmission should be evidenced in writing.

1.19 Retirement and Removal

The Responsible Entity may only retire as responsible entity of the Project in accordance with section 601FL of the Corporations Act. The Responsible Entity may only be removed as responsible entity of the Project in accordance with sections 601FM or 601FN of the Corporations Act.

1.20 Register

The Responsible Entity must keep an up to date register of Growers.

1.21 Meetings

Meetings of Growers shall be held in accordance with the provisions of Part 2G.4 of the Corporations Act and accordingly:

- (a) at least 21 days notice must be given of a meeting of the members of a registered scheme;
- (b) the nature of the business to be transacted at the meeting must be defined in the notice of meeting;
- (c) special or extraordinary resolutions will be decided on a poll and any other resolution/s will be decided on a show of hands unless a poll is demanded;
- (d) resolutions will be passed on a poll provided that a 50% majority is exceeded; and
- (e) voting may be by Proxy or by attending the meeting.

1.22 Accounts

At the end of each financial year the Responsible Entity must prepare or cause to be prepared all reports required to be prepared by Part 2M of the Corporations Act and must send copies of those reports to all Growers.

1.23 Modification of Constitution

Subject to section 601GC of the Corporations Act, the Constitution may be modified by the Responsible Entity (provided the Responsible Entity reasonably considers that the change will not adversely affect Growers' rights) or by special resolution of Growers.

2. COMPLIANCE PLAN

The Responsible Entity has prepared a Compliance Plan as required by the Corporations Act to ensure that it meets its obligations as the responsible entity of the Project and the rights of Growers are protected.

Part 5C.4 of the Corporations Act states that the compliance plan of a registered scheme must set out adequate measures that a responsible entity is to apply in operating the registered scheme to ensure compliance with the Corporations Act and the constitution of the registered scheme.

The Compliance Plan includes procedures for ensuring that:

- (a) Project Property is clearly identified as Project Property and held separately from the property of the Responsible Entity and property of any other scheme;
- (b) the Compliance Committee functions properly;
- (c) the Project Property is valued at regular intervals appropriate to the nature of the property;
- (d) the Compliance Plan is audited; and
- (e) adequate records of the operations of the Project are kept.

It is a requirement of the Corporations Act that the arrangements listed above are specifically dealt with.

In addition the Compliance Plan sets out procedures in relation to:

- (a) the establishment and operations of the Compliance Committee;
- (b) the appointment of a Compliance Officer and the duties of, and reports to be prepared by, the Compliance Officer;
- (c) conduct of business issues, such as procedures in relation to insurance, income collection and distribution, promotion, pricing and distribution of the Project and Project fees and expenses;
- (d) related party issues;
- (e) appointment and monitoring of external service providers;
- (f) the handling of complaints;
- (g) the training, recruitment and experience of staff;
- (h) monitoring compliance with the conditions of the Australian Financial Services Licence held by the Responsible Entity ('Licence');
- (i) reporting breaches of the Corporations Act, the Constitution, industry standards, internal policy or the Licence conditions;
- (j) continuous disclosure;
- (k) the underlying project land is protected; and
- (l) risk management.

Copies of the Compliance Plan are available to any Grower free of charge upon request to the Company in writing.

3. LEASE AND MANAGEMENT AGREEMENT

The parties to the Lease and Management Agreement are the Responsible Entity in its capacity as the Manager, the Lessor and the relevant Grower. The Lease and Management Agreement is divided into three main parts being:

- (a) sub-lease of the relevant Sandalwood Lot(s) from the Lessor;
- (b) management of the relevant Grower's Sandalwood Lot(s) by the Responsible Entity; and
- (c) general provisions.

The sub-lease section includes provisions to the following effect:

3.1 Grant of Sub-Lease

The Lessor grants to the relevant Grower a sub-lease of the relevant Sandalwood Lot(s) together with all improvements and fixtures, subject to any specified encumbrances.

The parties acknowledge that the Trees remain the property of the Grower until the termination of the sub-lease in accordance with its terms, with the exception of the Seeds which remain the property of the Responsible Entity to be collected and used at its discretion.

3.2 Rent

Rent is \$138 (including GST) per annum per Sandalwood Lot and is paid annually. See the 'Fees and Other Costs' section of this PDS, page 37, for further details on this option.

3.3 Grower's Obligations

The relevant Grower's obligations include the following:

- (a) not to use or permit to be used the relevant Sandalwood Lot(s) for any purpose other than that of commercial silviculture of Sandalwood Trees and not to use the relevant Sandalwood Lot(s) for the purpose of permanently or temporarily residing on it or for residential, recreational or tourist purposes;
- (b) at all times to manage, cultivate and work the relevant Sandalwood Lot(s) in a proper and skilful manner and according to generally accepted silvicultural methods, so as to maintain and develop the relevant Sandalwood Lot(s) for the purpose of long term commercial silviculture;
- (c) do all things reasonable to prevent the outbreak or spread of fire upon, from or to the relevant Sandalwood Lot(s);
- (d) comply with all statutes, ordinances, proclamations, orders and regulations present or future affecting or relating to the relevant Sandalwood Lot(s);
- (e) to transfer to the Responsible Entity, all of the Carbon Credits (if any) to which the relevant Grower is entitled pursuant to the terms of the Lease; and
- (f) upon the expiration or sooner determination of the Lease to peaceably surrender and yield up to the Responsible Entity the relevant Sandalwood Lot(s) clear and free of rubbish and in good and substantial repair and condition.

3.4 Lessor's Covenants

The Lessor's covenants include the following:

- (a) to give the Grower quiet enjoyment of the Leased Area during the Term;
- (b) that there are no mining tenements adversely affecting the Grower's interests; and
- (c) that all sub-leases will be in the same form or to the same effect.

3.5 Termination by the Lessor

The Lessor may terminate the Lease if the relevant Grower defaults in relation to the payment of money due and payable and the default continues for six months or the relevant Grower commits any breach or default in the due and punctual observance of any of the relevant Grower's covenants (but not in relation to payment of money) and that default is not remedied within one month of receiving written notice specifying the default and requiring it to be remedied.

The management section includes provisions to the following effect:

3.6 Appointment of Responsible Entity as Manager

The relevant Grower appoints the Responsible Entity to manage the relevant Sandalwood Lot(s) by performing the Services (as defined in the Lease and Management Agreement) and the Responsible Entity accepts the appointment.

3.7 The Services

The Services to be provided by the Responsible Entity are as follows:

Establishment Services

The Responsible Entity must supervise and manage all commercial silvicultural activities to be carried on by the relevant Grower on the relevant Sandalwood Lot(s) and must:

- (a) acquire appropriate seeds and seedlings;
- (b) carry out weed control, surveying and ground preparation of the relevant Sandalwood Lot(s);
- (c) plant on the relevant Sandalwood Lot(s), in accordance with good silvicultural and forestry practices, sufficient Sandalwood seedlings or Trees, which would reasonably be expected to produce Harvestable Sandalwood within 15 – 17 years from the Commencement Date at a rate which would reasonably be expected to provide a survival rate of 420 Trees per hectare at the end of the third year after the Commencement Date;
- (d) plant on the relevant Sandalwood Lot(s) such other Trees as it may consider to be necessary to enable or encourage the growth of or to protect the Sandalwood seedlings or Trees growing on the relevant Sandalwood Lot(s);

- (e) irrigate, cultivate, tend, cull, prune, fertilise, spray as required in support of planting; and
- (f) use all reasonable measures required to ensure vermin do not become established in the Plantations.

Ongoing Services

The Responsible Entity must supervise and manage all commercial silvicultural activities to be carried on by the relevant Grower on the relevant Sandalwood Lot(s) and must:

- (a) irrigate, cultivate, tend, cull, prune, fertilise, replant, spray, maintain and otherwise care for the Trees as and when required;
- (b) plant on the relevant Sandalwood Lot(s) such other Trees as it may consider to be necessary to enable or encourage the growth of or to protect the Sandalwood seedlings or Trees growing on the relevant Sandalwood Lot(s);
- (c) replant the relevant Sandalwood Lot(s) or part thereof with sufficient seedlings or Trees if the Responsible Entity deems necessary, with the replanting fee to be paid by the Responsible Entity;
- (d) keep in good repair any access road or roads to the relevant Sandalwood Lot(s);
- (e) use all reasonable measures by fumigating and poisoning for exterminating and keeping the relevant Sandalwood Lot(s) free from infestation of rabbits and other vermin and to comply with the provisions of all statutes, regulations and by-laws and all amendments thereto with respect to the same, and any other statutes, rules, regulations and by-laws relating to or affecting the relevant Sandalwood Lot(s) or the Grower in respect thereof;
- (f) maintain in good repair and condition adequate fire-breaks in and about the relevant Sandalwood Lot(s);
- (g) maintain the relevant Sandalwood Lot(s) according to good silvicultural and forestry practices;
- (h) furnish to the relevant Grower reports as and when required by the Lease and Management Agreement and the Constitution;
- (i) carry out, or arrange to be carried out, the Harvest and Processing of the Trees in a manner which maximises the return for the relevant Grower; and
- (j) carry out any other obligation to be performed by the Responsible Entity pursuant to the terms of any relevant agreement entered into by the Responsible Entity for the sale of Forest Produce.

Selling and Marketing Services

The Responsible Entity must:

- supervise and manage the negotiating and making, at the maximum practicable price available, sales of the Forest Yield, including entering into any sale agreement with a purchaser on such terms and conditions as the Responsible Entity considers appropriate, whether before or after the planting of the relevant Sandalwood Lot(s) occurs;
- supervise and manage the writing of a marketing plan defining the current world Sandalwood market, identifying relevant markets, identifying the cultural particulars of those markets, strategising how to best access those markets, and setting the sales targets within each market;
- supervise and manage the contracting of expert personnel to negotiate a sales agreement with major purchasers of Sandalwood, whether the negotiation would be in writing, by telephone, by facsimile or in person, and the payment of any applicable commissions;
- maintain an international database of all potential buyers of Sandalwood in the years preceding the Harvest;
- maintain contact with all potential buyers in order to keep them informed of the progress of the Plantation and to give them due notice of the impending Harvest;
- generate interest in Sandalwood as an end product so as to stimulate demand for the Forest Produce; and
- educate manufacturers and retailers of Sandalwood products about the success and quality of the Indian Sandalwood grown in the north of Australia, so as to stimulate interest and demand for the Forest Produce.

3.8 Project Fees

The relevant Grower agrees to pay to the Responsible Entity, the fees as set out below:

3.8.1 Establishment Fee

In consideration of the Responsible Entity agreeing to undertake the Establishment Services during the Establishment Period, the Responsible Entity is to be paid the Establishment Fee in accordance with the following scale:

Number of Sandalwood Lots applied for by Applicant	Establishment Fee (per Sandalwood Lot)
1 – 11	\$6,875 (including GST)
12 or more	\$6,600 (including GST)

In respect of the above table, the prices quoted apply to all of the Sandalwood Lots purchased for that particular Application. Therefore as an example if you were to apply for 12 lots (i.e. 1 hectare) then you will be required to pay \$79,200 (that is, 12 lots at \$6,600 per lot).

3.8.2 Upfront Annual Fee and Upfront Rent

In consideration for the performance by the Responsible Entity of the Ongoing Services and the sub-lease of one Sandalwood Lot for one Project Year, the Responsible Entity is to be paid the Upfront Annual Fee and the Upfront Rent as follows:

Type of Fee	Fee (per Sandalwood Lot)
Upfront Annual Fee	\$412 (including GST)
Upfront Rent	\$138 (including GST)

3.8.3 Annual Fees – Annual Investment Option

In each Project Year following the expiry of the Establishment Period (up to and including Year 14), if the Grower elects the Annual Investment Option, they shall pay the Responsible Entity the Annual Fee and Rent in consideration of the Ongoing Services and the lease of one Sandalwood Lot for the corresponding Project Year, as follows:

Type of Fee	Fee (per Sandalwood Lot)
Annual Fee ^{1,3}	\$412 (including GST)
Rent ^{2,3}	\$138 (including GST)

Notes:

- The Annual Fee will increase each year at a fixed rate of 3% per annum throughout the Term. No Annual Fee will be charged in the final year of Harvest.
- The Rent will increase each year at a fixed rate of 3% per annum throughout the Term.
- If the Upfront Annual Fee and Upfront Rent have not been released pursuant to a resolution of Growers prior to the commencement of Year 14 of the Project, these funds will be applied in satisfaction of the Annual Fee and Rent for Year 14 of the Project.

3.8.4 Deferral Fees – Annual Deferred Investment Option

In each Project Year following the expiry of the Establishment Period (up to and including Year 13, and, if permitted by the Responsible Entity, Year 14), if the Grower elects the Annual Deferred Investment Option, the Grower shall pay the Responsible Entity a percentage of the Gross Proceeds of Sale in consideration of the Ongoing Services and the lease of one Sandalwood Lot for the corresponding Project Year, as follows:

Year of Deferral	Percentage of Gross Proceeds of Sale (per Sandalwood Lot) to which the Responsible Entity is Entitled to in respect of that year
Years 1 – 2	3% (plus GST)
Years 3 – 4	2% (plus GST)
Years 5 – 14	1% (plus GST)

If TFS Properties is replaced as the Responsible Entity of the Project in the event of insolvency, the Replacement Responsible Entity may require that Growers cannot elect the Annual Deferred Investment Option for the years following insolvency until the Termination Date.

3.8.5 Incentive Fee

Each Grower (which means both an Electing Grower and a Non-Electing Grower) agrees to pay the Responsible Entity an incentive fee calculated in accordance with the following formula:

For a Non-Electing Grower:

$$IF = \frac{30}{100} ((C - A) \times B)$$

Where: IF = Incentive Fee to be calculated

A = the Target Net Proceeds of Sale per Sandalwood Lot as set out in this PDS (being \$100,000)

B = the number of Sandalwood Lots sub-leased by the relevant Grower

C = the actual Gross Proceeds of Sale per Sandalwood Lot less the Grower's Proportional Share of the Costs of Harvest and Processing, and the Non-Electing Grower's Proportional Share of the Selling and Marketing Fee

For an Electing Grower:

The formula is the same for a Non-Electing Grower except that:

C = the Gross Proceeds of Sale per Sandalwood Lot less the Grower's Proportional Share of the Costs of Harvest and Processing, and the Non-Electing Grower's Proportional Share of the Selling and Marketing Fee that would have been paid by the Electing Grower had it been a Non-Electing Grower

In any case, if "IF" is ever a negative amount, then it is deemed to be \$0.00.

Each Non-Electing Grower will have the Incentive Fee deducted from the Net Proceeds of Sale. Each Electing Grower must pay the Incentive Fee at the time that it collects the Collectable. If the actual amount of the Incentive Fee has not been determined at the time the Grower is required to pay this Fee, the Responsible Entity may provide an estimate of the Incentive Fee which the Grower is required to pay and the balance of the Incentive Fee shall be paid or credited within 14 days of its determination.

3.8.6 Selling and Marketing Fee

Each Non-Electing Grower agrees to pay a Selling and Marketing Fee to the Responsible Entity of 5% (plus GST) of the Gross Proceeds of Sale per Sandalwood Lot in consideration for the performance of the Selling and Marketing Services.

3.9 Termination by relevant Grower

The relevant Grower may terminate the Lease and Management Agreement at any time after any of the following events:

- (a) a breach of the Lease and Management Agreement of a substantial nature by the Responsible Entity or the Lessor, and if the breach is capable of remedy, failure by the Responsible Entity or the Lessor (as the case may be) to remedy the breach within 28 days of receiving written notice from the Grower to do so;
- (b) the Responsible Entity or the Lessor committing an act of bankruptcy or going or being placed into liquidation or official management; and
- (c) the Responsible Entity being removed as responsible entity of the Project under the Constitution.

3.10 Delegation

The Responsible Entity may, for the better performance of its obligations under the Lease and Management Agreement, employ agents, contractors, professional advisers and other consultants and these persons will not be under any fiduciary duty to account to the Grower by reason only of their appointment by the Responsible Entity. Generally, delegation by the Responsible Entity of any of its functions does not release it from liability under the Lease and Management Agreement.

3.11 Right to Produce

Subject to the relevant Grower complying with all of its obligations under the Lease and Management Agreement, the relevant Grower will at all times have full right, title and interest in the Forest Produce, or Collectable Produce (as the case may be) on the relevant Sandalwood Lot(s).

3.12 Grower's Recommendations

The relevant Grower may give written notice to the Responsible Entity setting out the opinion or recommendation of the relevant Grower with respect to any matter relating to the Services or any other matter which is the subject of the Lease and Management Agreement and the Responsible Entity must give due consideration to the recommendation and use its reasonable endeavours to carry out any recommendation provided that the Responsible Entity is not obliged to carry out any recommendation which is unreasonable, impracticable, contrary to any provision of the Lease and Management Agreement, the Constitution, the Corporations Act or any other law or is not in the interests of Growers, or if there has been a change in circumstances since the date of the Grower's notice.

3.13 Responsible Entity's Report

The Responsible Entity must provide to the relevant Grower on an annual basis a report containing a review of the operations of the Project.

3.14 Sale of Sandalwood

In relation to Growers who have not elected to collect the Collectable Produce, a Grower is deemed to have irrevocably appointed the Responsible Entity as its exclusive agent for the purpose of making sales of Forest Produce.

The Responsible Entity (or any of its associates) is permitted to purchase Forest Produce from the Growers provided that the purchase price is a reasonable and fair market price determined as if the parties were dealing at arm's length, and the Responsible Entity acts in the utmost good faith to the Growers.

Further, the Responsible Entity (or its nominee) shall have the right to match the terms of purchase offered pursuant to a competing third party offer, and to acquire the Forest Produce on terms no less favourable to Growers as those offered under the competing third party offer.

3.15 Insurance

The Responsible Entity is obliged to obtain (at its cost) public risk insurance in relation to the Plantation for an amount not less than \$5 million. The Responsible Entity must use its reasonable endeavours to arrange (at its cost) insurance of the Sandalwood Lots up to the end of the Establishment Period against destruction or damage to the Sandalwood Lots by fire. The Responsible Entity will apply the relevant Grower's Proportional Share of insurance proceeds obtained as the result of any successful claim made under a policy of insurance against any amounts due and payable by the relevant Grower (including insurance premiums, Annual Management Fees, or any other amounts payable under the Lease and Management Agreement or the Constitution) before holding the balance on trust for the Grower and, as soon as practicable, paying this balance to the Grower.

3.16 Termination by the Responsible Entity

If the relevant Grower defaults in relation to the payment of money and the default continues for a period of 6 months or the relevant Grower commits a breach or default of one of the Grower's covenants (not in relation to the payment of money) and the default is not remedied within one month of the Grower receiving written notice of the default requiring it to be remedied, the Responsible Entity may terminate the Lease and Management Agreement.

The general section of the Agreement includes provisions to the following effect:

3.17 Assignment of Agreement

The relevant Grower (if it has not defaulted under the Lease and Management Agreement) may assign or transfer its rights under the Lease and Management Agreement provided:

- (a) it can prove to the satisfaction of the Responsible Entity and the Lessor that the proposed assignee or transferee is a respectable, responsible and solvent person;
- (b) the ingoing party enters into a deed with the Responsible Entity and the Lessor in a form approved by the Responsible Entity and the Lessor, pursuant to which the ingoing party agrees to duly perform and observe the covenants and agreements on the Grower's part contained in the Lease and Management Agreement;
- (c) the assignment or transfer complies with the rules of any secondary market on which the Interests are traded; and
- (d) the assignment or transfer complies with the Tax Laws Amendment (2007 Measures No. 3) Act 2007 (if applicable).

3.18 Power of Attorney

The relevant Grower irrevocably appoints the Responsible Entity as its attorney with full power in the name of the relevant Grower to do all such acts and execute all such deeds and documents which the Responsible Entity deems necessary for the purpose of complying with any duty or obligation imposed on the relevant Grower by the Lease and Management Agreement.

3.19 Authority

The relevant Grower authorises the Responsible Entity to date the Lease and Management Agreement and to complete any blank spaces in the schedule.

3.20 Payment of Stamp Duty and Registration Fees

The Responsible Entity must pay all stamp duties and legal costs payable in respect of the Lease and Management Agreement. Each Grower must pay any fees, costs or expenses to register the relevant Lease, to lodge a caveat in respect of the Grower's interest in the Leased Area or to lodge or register any other document that may be related to these actions or documents.

3.21 Tax

Any tax or impost (including, without limitation, GST) payable in respect of the rent, the management fee, the Annual Fee, the Incentive Fee or any other payment or service provided pursuant to the terms of the Lease and Management Agreement, must be paid by the relevant Grower.

4. AGREEMENT FOR SUB-LEASE

In accordance with the Constitution, if there is no Plantation land available for allotment to a Grower before 30 June 2013, the Responsible Entity may still accept an Application where it believes it will be able to arrange entry into a sub-lease on behalf of the Grower in sufficient time to perform the Establishment Services within 18 months from the date of acceptance of that Application, and in those circumstances will enter into an Agreement for Sub-lease.

In the event that the Responsible Entity is required to arrange a Sub-Lease, the Sub-Lease will be entered into on the material terms and conditions set out below.

4.1 Parties

The parties to the Agreement for Sub-Lease will be the Responsible Entity, the Lessor and the relevant Grower.

4.2 Enter into Sub-Lease

Under the Agreement for Sub-Lease, the Responsible Entity must enter into a sub-lease of a Sandalwood Lot as attorney for the Grower in sufficient time for the Responsible Entity to perform the Establishment Services under the Lease and Management Agreement within the period of 18 months from the date that application is accepted. The sub-lease must in all respects contain terms and conditions that are substantially the same as that sub-lease forming part of the Lease and Management Agreement.

4.3 Lease and Management Agreement

Immediately before the sub-lease is in force and effect, the Responsible Entity must be satisfied that:

- (a) the Head Lease is valid and subsisting;
- (b) the Lessor is entitled under the Head Lease to grant the sub-lease to the Grower;
- (c) all consents that may be required have been obtained; and
- (d) the Sandalwood Lots the subject of the sub-lease are not subject to any encumbrance or restriction detrimentally affecting the Grower's interest, other than those already disclosed in the PDS.

The Grower agrees to lease the Sandalwood Lots under the sub-lease as arranged by the Responsible Entity.

4.4 Term

The Agreement for Sub-Lease commences on the date of the agreement and continues until the earlier of the grant of the sub-lease to the Grower or termination of the Project.

4.5 Assignment

The Grower may only transfer, mortgage, assign or otherwise dispose of this Agreement or any of its rights or interests under it in accordance with the provisions of the Constitution.

5. PLANTATION MANAGEMENT AGREEMENT

Pursuant to this agreement, the Project Manager has agreed to perform all of the Services which are required to be undertaken by the Responsible Entity under the Lease and Management Agreement, although the Responsible Entity remains liable to the Growers for the manner in which the Services are performed.

In addition to providing the Services, the Project Manager must, amongst other things:

- (a) provide the Responsible Entity on or before 31 October and 30 April of each financial year after the end of the Establishment Period, a report containing a review of the timber operations on the Plantation during the relevant period;
- (b) make available to the Responsible Entity all of the books relating to the Project;
- (c) regularly monitor and whenever required by the Responsible Entity, report on all relevant key provisions of the Lease and Management Agreements; and
- (d) provide the Responsible Entity with an appropriate action plan to address any issues identified in any expert's reports as requiring attention.

In consideration for the Project Manager performing the Services, the Responsible Entity shall pay the Project Manager an amount of \$50,000 per hectare during the Establishment Period, and \$4,500 per hectare for each of years 2 to 13. The Responsible Entity may also pay a bonus to the Project Manager if it successfully completes the Services, provided that any such bonus be paid on reasonable commercial terms in accordance with Section 210 of the Corporations Act.

6. HEAD LEASE

TFS Properties will ensure that a Head Lease is secured over the land selected for the Project. Pursuant to the Head Lease, the registered owner will agree to lease the Plantation to the Lessor and will consent to the Lessor sub-leasing Sandalwood Lots to Growers.



ADDITIONAL INFORMATION

NUMBER OF INTERESTS OFFERED

The number of Sandalwood Lots that are available for subscription is 4,800 plus oversubscriptions.

MINIMUM SUBSCRIPTION

There is no minimum amount that must be raised under this PDS.

BUY BACK PROVISION

You have no right to require that your Sandalwood Lot(s) be repurchased by the Responsible Entity or any other person. If you suffer hardship you can request hardship relief.

TRANSFER OF INTERESTS

If you wish to transfer your Sandalwood Lot and ongoing obligations in its entirety to another party you should contact TFS Properties, as the consent of TFS Properties is required. The transfer is subject to the requirements of the Corporations Act, the Constitution and the Lease and Management Agreement. Further details about transferring Sandalwood Lots are set out in the Constitution and Lease and Management Agreement.

Legislation was introduced on 1 July 2007 to allow investors in forestry MIS's to trade their interests in the Scheme, provided the initial investor has held the forestry MIS interest for four years. Sales of Sandalwood Lot(s) will be subject to the rules of any secondary market on which the scheme interests are traded, together with the requirements referred to above.

INSURANCE

TFS Properties will insure the Trees in the nursery and when planted on your Sandalwood Lot against fire for 90% of their full value at its cost until the end of the Establishment Period. In the event of a loss during the currency of this insurance, TFS Properties will make a claim and use any insurance proceeds to replace or replant the Trees.

TFS Properties has investigated the availability of insurance for the Trees on your Sandalwood Lot, and if requested to do so by you, can put you in contact with a licensed insurance broker who will be able to effect insurance on your behalf. TFS Properties or the licensed insurance broker will issue you with an annual reminder not later than 1 month prior to the expiry of any term of the insurance affected by you on the Trees on your Sandalwood Lot or Lots.

The proceeds of any successful claims made under the policy of insurance will be paid to you, after deducting or paying all costs, fees, expenses and any other money payable by you to TFS Properties or to any other person.

In addition, TFS Properties will take out public liability insurance for an amount of not less than \$5,000,000 for the duration of the Lease and Management Agreement. TFS Properties will satisfy any premiums due in respect of such insurance.

COMPLAINTS

If you have a complaint about any aspect of the Project you should:

- contact TFS Properties in writing (refer to the Corporate Directory for contact details); or
- contact TFS Properties by telephone (+61 8 9386 3299) and ask to speak with the Complaints Handling Officer.

TFS Properties will acknowledge the complaint within 10 Business Days of receiving it, and resolve the complaint in a timely fashion. If the complaint cannot be resolved within 10 Business Days of acknowledgment then TFS Properties will maintain fortnightly contact with you informing you of the progress and estimated time frame for resolution of the complaint. TFS Properties will provide you a final response within 45 days of receiving the initial complaint.

If you are dissatisfied with the resolution of the complaint then you may:

- refer the matter to the Financial Ombudsman Services ('FOS'). FOS is an external complaints resolution scheme of which TFS Properties is a member;
- access the Project's dispute resolution procedures (refer to the 'Dispute Resolution Procedures' section of this PDS below); or
- pursue any other remedies that are available at law.

Further details about the complaint handling procedures are set out in the Constitution.

DISPUTE RESOLUTION PROCEDURES

Once the complaints handling procedures are exhausted you have the option of accessing the Project's dispute resolution procedures. This is done by providing a dispute notice setting out what is in dispute, the arguments of the party giving the notice and that party's opinion as to what should be done to rectify the dispute. The Responsible Entity must respond in writing to the dispute notice.

If the dispute is not resolved by TFS Properties' response then the matter will be referred to an independent person who will attempt to resolve the dispute in conference. If the parties remain unable to resolve the dispute then a party may refer the dispute to an independent expert consultant. A decision by this expert will not preclude a Grower from lodging a complaint with the external complaints resolution body of which the Responsible Entity is a member, or from taking any other action.

Further details about dispute resolution processes are set out in the Constitution.

ENHANCED DISCLOSURE

It is likely that the Project will be a disclosing entity subject to regular reporting and disclosure obligations under the Corporations Act. Copies of documents lodged with the ASIC in relation to the Project may be obtained from, or inspected at, an ASIC office. These documents include annual financial, Directors' and auditor's reports as well as continuous disclosure notices and audits of the Compliance Plan. Continuous disclosure notices provide information about matters impacting on the value of Sandalwood Lots which would not otherwise be generally available.

If the Project is a disclosing entity, you may request that TFS Properties (refer to the Corporate Directory for contact details) provide you with the following information within five (5) days free of charge:

- the Project's most recent Annual Financial Report;
- any half yearly financial report lodged with the ASIC by the Project after that Annual Financial Report and before the date of this PDS; and
- any continuous disclosure notices given by the Project after the lodgement of that Annual Financial Report and before the date of this PDS.

In the event that the Project is not a disclosing entity you will be provided with ongoing disclosure of any material changes to, and any significant events affecting matters specified in this PDS. TFS conducts an annual mail out of Annual Reports to Growers and shareholders. Growers also receive a regular newsletter covering recent updates.

ANNUAL REPORT

Each year you will be sent an annual report in relation to the Project. The annual report will provide you with information pertaining to the operations of the Plantation, the health of the Trees and other information affecting the performance or viability of the Plantation.

Growers can elect to receive this information in either hard or softcopy (via email) when completing the Application Form.

CONFIRMATION OF TRANSACTIONS

You will receive confirmation of transactions occurring in relation to your Sandalwood Lot(s) as required by the Corporations Act. Generally this will include confirmation of the transaction by which you as a successful Applicant acquire your Sandalwood Lot(s) and become a Grower.

DEFAULT

In the event that you default in payment of any Fees, TFS Properties and/or the Lessor may terminate your Lease and Management Agreement in accordance with its terms and may sue to recover Fees due under the Lease and Management Agreement.

RECORD OF INTERESTS

TFS Properties will:

- send you a confirmation for the Sandalwood Lot(s) acquired, after acceptance of your Application;
- send you a certificate and site plan identifying your Sandalwood Lot(s), once your Sandalwood Lot(s) have been planted; and
- maintain a register of Growers, identifying the Sandalwood Lot(s) held. This may be inspected by you at TFS Properties' office during normal business hours.

NO GUARANTEE

Neither the Responsible Entity nor any Director guarantees the amount or timing of any tax deduction or return. The Directors and the Responsible Entity advise that any policies of the Directors of the Responsible Entity may be subject to change in the event of any economic, financial or other changes subject to the limitations expressly provided in the Corporations Act, the Constitution or the Compliance Plan.

COMMISSION

TFS Properties may pay commissions on Establishment Fees received for Applications for Sandalwood Lots to eligible financial intermediaries under the regulations stipulated in the Future of Financial Advice Reforms Act (FOFA). The amount of commission is scheduled to be 5% of all Establishment Fees received for Applications for Sandalwood Lots.

Compensation to financial service licensees for the provision of administrative or marketing support is restricted under FOFA, and compensation will be guided by these regulations.

Information concerning any payments which may be made to your adviser should be disclosed by your adviser.

FORMATION AND ISSUE EXPENSES

All expenses of the issue, inclusive of all legal, accounting and experts' fees, together with all commissions detailed in this PDS and advertising will be paid by TFS Properties from its own funds.

PARTICULARS OF INTERESTS

TFS Properties will be paid Fees, costs and other disbursements as described in the 'Fees and Other Costs' section of this PDS.

- Wilson & Atkinson, a legal firm in which Frank Wilson was a principal, is entitled to be paid professional fees in respect of legal services provided to the Responsible Entity in relation to the preparation and submission to the Australian Taxation Office for the Product Ruling, and associated tax advice on this PDS. These fees are estimated to be no more than \$30,000.
- Kimber Environment Services has prepared an Expert Forester's Report for inclusion in this PDS. The amount which Kimber Environment Services will be paid for this work will not exceed \$10,000.
- Anantha Padmanabha has prepared an Expert Market Report for inclusion in this PDS. The amount which he will receive for this work will not exceed \$10,000.
- Steinepreis Paganin, as solicitors to TFS Properties, is entitled to be paid professional fees in respect of legal services provided to the Responsible Entity relating to their review of the Summary of Material Agreements section of this PDS. These fees are estimated to be no more than \$30,000.

CONSENTS

Kimber Environment Services has given, and not before issue of this PDS withdrawn, its consent to the issue of this PDS with the Expert Forester's Report and other statements attributed to it being included in this PDS in the form and context in which they are included.

Anantha Padmanabha has given, and not before issue of this PDS withdrawn, his consent to the issue of the PDS with the Expert Market Report and other statements attributed to him included in this PDS in the form and context in which they are included.

Steinepreis Paganin have given and not withdrawn their consent before the issue of this PDS for the inclusion of the Summary of Material Agreements contained on page 74 of this PDS and any other statement attributable to them in the form and context in which they are included.

True copies (verified by a statement in writing) of the consents and of every material contract referred to in this PDS are available for inspection without charge at the registered office of TFS Properties.

APPLICATIONS

To apply for Sandalwood Lot(s), please complete an Application Form and send it to TFS Properties with the Application Money.

More information as to the process of Application and acceptance of Application can be found with the Application Form on page 92 of this PDS.

COOLING OFF PERIOD

If you make an Application under this PDS you have the right to withdraw the Application and obtain a refund (less any amounts TFS is entitled to deduct by law) within a 14 day cooling off period. The cooling off period is as defined in Sections 1019A and 1019B of the Corporations Act. Your right is subject to the limitations set out in the Corporations Act. The cooling off period begins either from the day TFS accepts your Application in writing or 5 days after TFS issues you an interest in the Project, whichever occurs first. The right to withdraw the Application cannot be exercised at any time after you have exercised a right or power under the Project.

The cooling off period is extinguished once you have signed a Lease and Management Agreement (or the Responsible Entity signs a Lease and Management Agreement on your behalf under a Power of Attorney from you) even if the cooling off period may not then have expired.

EXECUTION ON BEHALF OF THE DIRECTORS

This PDS was signed on behalf of the Directors of TFS Properties, the Responsible Entity, by:



Frank Wilson
EXECUTIVE CHAIRMAN



GLOSSARY

In this Product Disclosure Statement the following words have the following meaning, unless the context requires otherwise:

'12 Months Interest Free Loan' means the method of payment of the Establishment Fees and Upfront Annual Fee and Upfront Rent by instalments in accordance with the Loan Agreement.

'Agreement for Sub-Lease' means the agreement under which the Responsible Entity arranges for the Grower to enter into a Lease and Management Agreement in sufficient time for the Responsible Entity to perform the Establishment Services in the time set out in that document.

'Annual Investment Option' means the annual investment option described in the 'Investment Options' section of this PDS.

'Annual Deferred Investment Option' means the annual deferred investment option described in Section the 'Investment Options' section of this PDS.

'Annual Fee' means the Fee calculated in accordance with Item 9C (Annual Fee) of the Lease and Management Agreement (Indexed), which is payable to the Responsible Entity pursuant to the Lease and Management Agreement.

'Applicant' means a person who has lodged an Application by completing an Application Form but has not become a Grower.

'Application' means a signed application (in the form of the Application Form accompanying or attached to this PDS) for one or more Sandalwood Lots.

'Application Form' means one of the forms attached to or accompanying this PDS.

'Application Fund' means the application fund formed under the Constitution and includes:

- (a) all Application Money;
- (b) the investments (if any) for the time being representing the sums referred to in paragraph (a); and
- (c) the proceeds of the sale, redemption, repayment or realisation of any of the investments referred to in this definition.

'Application Money' means the total amount payable on Application for one or more Sandalwood Lots in accordance with an Application.

'ASIC' means the Australian Securities and Investments Commission.

'Business Day' means any day other than a Saturday, Sunday or public holiday in Western Australia.

'Carbon Credits' means the entitlement to any tradable credits or rights associated with the Trees (including any lost Trees) resulting from the ability of the Trees (including any lost Trees) to absorb greenhouse gases.

'Cleaned Logs' means the Harvested Sandalwood with the sapwood removed to produce clear heartwood and the roots of the Sandalwood Tree containing heartwood.

'Collectable Produce' means, in relation to a Grower who is an Electing Grower, that Grower's Proportional Share of the Forest Yield.

'Commencement Date' means, in relation to a Lease and Management Agreement, the date of commencement of that Lease and Management Agreement (being the date on which a Grower's Application is accepted by the Responsible Entity).

'Compliance Plan' means the compliance plan prepared by the Responsible Entity for the Project as required by the Corporations Act.

'Constitution' means the constitution of the Project.

'Corporations Act' means the Corporations Act (2001) for the time being in force together with the regulations of the Corporations Act (2001).

'Costs of Harvesting and Processing' means all costs incurred by the Manager in the Harvesting and Processing of the Sandalwood Trees located on the Plantation and transporting them to Store. These costs include interest on all amounts of money paid by the Manager towards Harvesting and Processing from the time when those costs are paid until the time that the Responsible Entity is reimbursed.

'Directors' means the directors of the Responsible Entity (as they are from time to time).

'Electing Grower' means a Grower who has made an election in accordance with the Lease and Management Agreement to collect the Collectable Produce on his or her Sandalwood Lot(s).

'Establishment Period' means, in relation to any Sandalwood Lot:

- (a) if a Grower's Application is accepted by the Responsible Entity on or before 30 June 2013, in circumstances where the Responsible Entity considers that the Establishment Services cannot be performed prior to 30 June 2013 but can be performed within eighteen months of the Commencement Date and if the Establishment Services are performed within eighteen months of the Commencement Date – the period of eighteen months from the Commencement Date; or
- (b) if a Grower's Application is accepted by the Responsible Entity on or before 31 December 2013, in circumstances where the Responsible Entity considers that the Establishment Services cannot be performed prior to 31 December 2013 but can be performed within eighteen months of the Commencement Date and if the Establishment Services are performed within eighteen months of the Commencement Date – the period of eighteen months from the Commencement Date,

but in any event, terminating no later than 31 December 2014.

'Establishment Fee' means the fee described in 'Fees and Other Costs' section of this PDS.

'Establishment Services' means the services to be provided by the Manager as specified in the Lease and Management Agreement.

'Fees' means any or all of the Fees and costs of participating in the Project payable by a Grower as the context requires.

'Forest Produce' means, in relation to a Grower who is a Non-Electing Grower, that Grower's Proportional Share of the Forest Yield.

'Forest Yield' means produce from the Plantation (expressed in cubic metres) after Harvesting and Processing and includes sapwood and any other saleable by-product from processing other than the Seeds.

'Gross Proceeds of Sale' means the gross amount received by the Manager from the sale of Forest Produce.

'Gross Project Proceeds' means the gross amount received by the Manager from the sale of Forest Yield (excluding all Collectable Produce).

'Growers' means all of the persons who are identified as 'growers' in any Lease and Management Agreement(s) entered into relating to the Project.

'GST' has the meaning contained in Section 195-1 of the A New Tax System (Goods and Services Tax) Act 1999.

'Harvest' and **'Harvesting'** means all of the steps required to cut down and pull the Sandalwood Trees and prepare them for Processing, including but not limited to surveying, felling, extraction, loading and haulage.

'Head Lease' means the lease of the Plantation entered into between the Head Lessor and the Lessor.

'Head Lessor' means the owner of the land on which the Plantation is located or to be located.

'Incentive Fee' means the fee described in the 'Fees and Other Costs' section of this PDS.

'Independent Custodian' means the independent custodian appointed by the Responsible Entity to maintain the Subsequent Establishment Payment Fund and the Upfront Payment Fund in accordance with the Constitution.

'Indexed' means that wherever the word 'Indexed' appears in reference to an amount of money, then this means that the amount of money referred to must be increased by three percent (3.0%) annually.

'Independent Experts Reports' means the Expert Foresters' Report on page 60 and the Expert Market Report on page 66.

'Lease' means, in relation to a Grower, the sub-lease of the Leased Area granted by the Lessor to the Grower under the Lease and Management Agreement.

'Lease and Management Agreement' means one or more agreements comprising the Lease and the Management Agreement in the form contained in the Schedule to the Constitution or in such other form (such as electronic, hard copy or in a language other than English) as the Responsible Entity shall reasonably determine having regard to a particular investor's needs and costs.

'Leased Area' means, in relation to a Grower, that specified part of the Plantation as identified in the Annexure to the relevant Lease and Management Agreement (comprising one or more Sandalwood lots) to be sub-leased by the Grower from the Lessor pursuant to the terms of the relevant Lease and Management Agreement.

'Lessor' or **'TFS Leasing'** means TFS Leasing Pty Ltd (ACN 080 978 721), a subsidiary of TFS Corporation Ltd.

'Manager' or **'Project Manager'** means the Manager under the Plantation Management Agreement (being Tropical Forestry Services Ltd (ACN 080 139 966) or any of its successors or assignees).

'Management Plan' means the management plan for the maintenance of the Plantation and outlines the procedures to be followed to ensure that the Project is carried out in accordance with industry best practice and in a manner designed to both mitigate the Project risks and maximise the growth and yield of the Plantation.

'Net Proceeds of Sale' applies to a Non-Electing Grower and means the Gross Proceeds of Sale less:

- (a) the Grower's Proportional Share of the Costs of Harvesting and Processing; and
- (b) the Non-Electing Grower's Proportional Share of the Selling and Marketing Fee.

'Non-Electing Grower' means a Grower who is not an Electing Grower;

'Non-Electing Growers' Proportional Share' means the proportion which the number of Sandalwood Lots sub-leased by the Non-Electing Grower bears to the total number of Sandalwood Lots sub-leased by all Non-Electing Growers.

'Ongoing Services' means the services to be provided by the Manager as specified in the Lease and Management Agreement.

'Plantation' means the whole of the land leased by the Lessor to be divided into Sandalwood Lots on which Growers will conduct the commercial silvicultural enterprise as detailed and described in this PDS.

'Principal and Interest Loan' means the method of payment of the Establishment Fees and Upfront Annual Fee and Upfront Rent by instalments in accordance with the Principal and Interest Loan Agreement.

'Proceeds Fund' means the proceeds fund formed under the Constitution and includes:

- (a) any Gross Proceeds of Sale;
- (b) the investments (if any) for the time being representing the sums referred to in paragraph (a); and
- (c) the proceeds of the sale, redemption, repayment or realisation of an Interest.

'Process' and **'Processing'** means all of the steps required to process Harvested Sandalwood Trees into a saleable form as Cleaned Logs and roots and butts and then to transport them to Store.

'Product Disclosure Statement' or **'PDS'** means this document issued by the Responsible Entity offering Sandalwood Lots and includes any documents that are supplementary to or in replacement of this document.

'Project' means the managed investment scheme known as the TFS Sandalwood Project 2013 (ARSN 161 604 806).

'Project Manager' means Tropical Forestry Services Ltd (ACN 080 139 966).

'Project Property' means the scheme property of any Scheme or the Project (as the case may be) as determined in accordance with the definition of scheme property in Section 9 of the Corporations Act.

'Proportional Interest' means, in relation to:

- (a) each Applicant, the proportion which the Application Money paid by the Applicant bears to the total amount of Application Money paid by all Applicants;
- (b) each Grower in a Scheme, the proportion that the area of the Sandalwood Lots sub-leased by the relevant Grower bears to the total area of the Sandalwood Lots sub-leased by all Growers in the same Scheme; and
- (c) each Grower in a Project, the proportion that the area of the Sandalwood Lots sub-leased by the relevant Grower bears to the total area of the Sandalwood Lots sub-leased by all Growers in the same Project.

'Proportional Share' means the proportion which the number of Sandalwood Lots sub-leased by the relevant Grower bears to the total number of Sandalwood Lots sub-leased by all relevant Growers for the time being.

'Rent' means the Fee calculated in accordance with Item 9C (Rent) of the Lease and Management Agreement (Indexed) which is payable to the Responsible Entity pursuant to the Lease and Management Agreement.

'Replacement Responsible Entity' means the replacement responsible entity appointed in the event of the insolvency of the Responsible Entity.

'Responsible Entity' means TFS Properties Ltd (ACN 093 330 977), the responsible entity of the Project operating under Australian Financial Services Licence number 241192.

'Sandalwood Lot' means a specified area or areas comprising approximately one twelfth (1/12) of a hectare forming part of the Plantation which is sub-leased or intended to be sub-leased to a Grower as more particularly delineated on a Plan and **'Sandalwood Lots'** means more than one Sandalwood Lot.

'Scheme' refers to all those Sandalwood Lots for which the Establishment Period ends on the same date.

'Seeds' means the seeds produced by the Trees.

'Selling and Marketing Fee' means a Fee of 5% (plus GST) of the Gross Proceeds of Sale to be deducted by the Manager from the Gross Proceeds of Sale in consideration of the Manager performing the Selling and Marketing Services.

'Selling and Marketing Services' means the services to be provided by the Manager as specified in the Lease and Management Agreement.

'Services' means the Establishment Services, the Ongoing Services and the Selling and Marketing Services.

'Store' means a covered secure area suitable for the storage of the Forest Yield within 20 kilometres of the Plantation.

'Subsequent Establishment Payment Fund' means the subsequent establishment payment fund formed by the Independent Custodian in accordance with the Constitution, into which the 50% of the Establishment Fee will be transferred from the Application Fund upon acceptance of a Grower's Application.

'Target Net Proceeds of Sale' means the targeted net proceeds of sale per Sandalwood Lot, being A\$100,000 (see Incentive Fee in the 'Fees and Other Costs' section of this PDS).

'Term' has the meaning given in the Lease and Management Agreement.

'TFS' means Tropical Forestry Services Ltd, the Project Manager of the Project.

'TFS Group Companies' or **'TFS Group'** means TFS Corporation Ltd (ACN 092 200 854) and its wholly-owned subsidiaries.

'Trees' means the Santalum album trees grown on the Leased Area as part of the Project, and such other trees as may reasonably be necessary or required to enable or encourage the growth of or protect the Santalum album seedlings or trees growing on the Leased Area.

'Underlying Land' means the underlying land that a Grower can use in relation to a Scheme.

'Upfront Annual Fee' means the Fee calculated in accordance with Item 9B (Upfront Annual Fee) of the Lease and Management Agreement, which is payable to the Responsible Entity pursuant to the Lease and Management Agreement.

'Upfront Payment Fund' means the upfront payment fund formed by the Independent Custodian in accordance with the Constitution, into which the Upfront Annual Fee and Upfront Rent will be transferred from the Application Fund upon acceptance of a Grower's Application.

'Upfront Rent' means the Fee calculated in accordance with Item 9B (Upfront Rent) of the Lease and Management Agreement, which is payable to the Responsible Entity pursuant to the Lease and Management Agreement.

'Year' means a period of 12 months.

'You' means an Applicant, a Grower, an initial Grower, an Electing Grower or a Non-Electing Grower as the context requires.

APPLICATION FORMS

HOW TO APPLY

Applicants must complete and sign the 'Grower Application Form' on page 94 and 95.

Please complete the Application Form in BLOCK LETTERS and sign on the relevant page.

Section 1 – Application Type

Please select if the Applicant is an Individual(s), Corporation or Trust

Section 2 – Details of Applicant(s)

Individual and Joint Applicants — please complete the name, address and contact details for each Applicant. **Joint Applicants will be deemed to be holding their Sandalwood Lots as joint tenants, not as tenants in common.**

Companies or Corporations — if any Applicant is a company or corporation, you must include its ABN ('Australian Business Number') or ARBN ('Australian Registered Body Number') after its name.

Trusts or Superannuation Funds — if the Application is made by a trust or superannuation fund, the Application must be made by the trustee(s) of the trust or superannuation fund in their own name(s), and not in the name of the trust or fund itself. The Trust Deed should be provided with the Application Form.

Section 3 – Sandalwood Lot(s) Applied For

Please complete the number of Sandalwood Lots in the Project for which you have applied. Then calculate the Establishment Fee, Upfront Annual Fee and Upfront Rent in accordance with your Application.

Section 4 – Payment Method

If wish to pay your Establishment Fee, Upfront Annual Fee and Upfront Rent with cash or cheque, please include payment with this Application Form. If you wish to pay via credit card or direct debit, please provide your credit card or bank details and the amount of the Establishment Fee to be deducted.

If you wish to finance your Establishment Fee, Upfront Annual Fee and Upfront Rent via the 12 Month Interest Free Loan please read and complete pages 96 – 107 of the PDS and submit to TFS with your Grower Application Form.

If you wish to finance your Establishment Fee, Upfront Annual Fee and Upfront Rent via the Principal and Interest Loan option please read and complete 'the Principal and Interest Loan Application Form' which can be obtained from TFS.

Section 5 – Election to Collect and Market Produce

If you intend to collect your own Sandalwood from your Sandalwood Lot(s) on completion of Harvesting, please tick the box. Please note that if you tick the box you will not be able to rely on the ATO Product Ruling. Refer to page 18 of the PDS for further information in relation to the election to collect your own Sandalwood. If you do not elect to collect and market your own Sandalwood, the Responsible Entity will pool your Sandalwood with the Sandalwood of other Non-Electing Growers, and market it on behalf of the Non-Electing Growers, and account to you for your share of the Net Proceeds of Sale.

HOW TO RETURN COMPLETED APPLICATION FORMS

Prior to sending your Application to TFS, please ensure all sections are complete and the Application has been dated and signed by all parties.

Mail the original Application Forms to:

TFS Properties Ltd
TFS Sandalwood Project 2013
PO Box 3040 Broadway
Nedlands WA 6009

You may also send a copy of your completed Application Form prior to mailing by:

EMAIL: Scan and email to TFS: applications@tfsLtd.com.au; or

FAX: Fax to TFS on (08) 6389 1546

Please ensure both sides of the Application Form are emailed or faxed.

IMPORTANT: You MUST also forward the original Application Form via mail to TFS at the above address if you chose to email or fax.

PRIVACY

By completing the Application Form, you agree to TFS Properties Ltd and, if applicable, the Provider (“we” or “us”) collecting, holding and using personal information about you to process your Application, and administer and manage the products and services we provide to you. This includes monitoring, auditing and evaluating those products and services, modelling data, maintaining our relationship with you, data testing, communicating with you and dealing with any complaints or enquiries.

You need not give us any of the personal information requested in the Application Form or in any other document or communication relating to the products or services we supply to you. However, without this information, we may not be able to process your Application or provide you with an appropriate level of service.

Under the Privacy Act 1988, we are obliged to take reasonable steps to ensure that any personal information stored by us is protected from misuse or loss and from unauthorised access, modification or disclosure. You agree to allow us to disclose your personal information to other companies in TFS Properties Ltd as well as our external service providers, which provide services in connection with our products and services. If an adviser stamp appears on the Application Form we will supply that adviser (and any relevant dealer group of which that adviser is an authorised representative) with information about your investments. We may also disclose your personal information:

- if, acting in good faith, we believe that the law requires or permits us to do so;
- if you consent; or
- to any party proposing to acquire an interest in our business.

IDENTIFICATION REQUIREMENTS

If you are not investing through a licensed financial advisor, IDPS, other financial adviser, or via an authorised representative of TFS, then you must provide us with the following identification materials for AML/CTF legislative purposes.

Individuals – Please provide a certified copy of one of the following:

- an Australian driver’s licence that contains a photograph of the licence/permit holder; or
- an Australian passport; or
- a passport or other document of identity for the purpose of international travel that contains a photograph and signature of the passport holder and is issued by a foreign government, the UN or a UN agency and if written in a language other than English, is accompanied by an English translation prepared by an accredited translator.

Company – Please provide:

- A full company search from the ASIC database showing:
 - the full name of the company;
 - the ACN;
 - the registered office address of the company;
 - the principal place of business of the company;
 - the names of each director of the company (only for a proprietary company); and
 - the shareholders of the company (for all proprietary companies that are not licensed subject to regulatory oversight of a Commonwealth, State or Territory statutory regulator).
- If the company is a regulated company, a search of the licence or other records of the relevant Commonwealth, State or Territory statutory regulator.
- If the company is listed, a search of the relevant financial market.

Trusts – Please provide:

- the original trust deed or a certified copy or certified extract of the trust deed confirming the full name of the trust, the type of trust (e.g. unit trust) and the country where the trust is established; and
- the name of each beneficiary or class of beneficiary.
- If the trustee is an individual, please also provide documentation required for individuals (above).
- If the trustee is a company, please also provide documentation required for companies (above).

GROWER APPLICATION FORM

Issuer: TFS Properties Ltd – ACN 093 330 977 – AFS Licence 241192

IMPORTANT: Read the Product Disclosure Statement to which this Application Form relates before signing this Application Form. This Application Form must not be issued, circulated or distributed unless attached to or accompanying the Product Disclosure Statement.

SECTION 1 – APPLICATION TYPE

Individual(s) Corporation Trust

SECTION 2 – DETAILS OF APPLICANT(S)

INDIVIDUAL 1: Mr/Mrs/Ms/Dr

Surname: _____ | Given Names: _____

Date of Birth: _____ | Occupation: _____

INDIVIDUAL 2: Mr/Mrs/Ms/Dr

Surname: _____ | Given Names: _____

Date of Birth: _____ | Occupation: _____

Note – All joint Applicants will be registered as joint tenants, not as tenants in common.

CORPORATION OR TRUST:

Company/Trust Name: _____ | ACN/ABN: _____

Director/Trustee 1: _____ | Director/Trustee 2: _____

CONTACT DETAILS:

Mailing Address: _____

Suburb: _____ | State: _____ | Post Code: _____

Residential Address: (if different to mailing) _____

Suburb: _____ | State: _____ | Post Code: _____

Home Phone: _____ | Mobile: _____

Facsimile: _____ | Email Address: _____

Please indicate how would you like investor information such as Annual Reports and Grower Newsletters distributed to you?

Email (please provide email address above) Mailed in hardcopy

SECTION 3 – SANDALWOOD LOT(S) APPLIED FOR

The number of Sandalwood Lot(s) applied for is: _____

Amount payable on application:

(a) The total Establishment Fee (including GST) in respect of the Sandalwood Lot(s) applied for is:

- For Applications of between 1 and 11 lots: _____ Lots x \$ 6,875 = \$ _____
- **OR** Applications of 12 lots or more: _____ Lots x \$ 6,600 = \$ _____

(b) The total Upfront Annual Fee and Upfront Rent (including GST) in respect of the Sandalwood Lot(s) applied for is:

- For all Applications: _____ Lots x \$ 550 = \$ _____

Total amount payable on application (a+b) = \$ _____

SECTION 4 – PAYMENT METHOD

Please choose how you would like to pay your Establishment Fee, Upfront Annual Fee and Upfront Rent:

- Payment in Full – Select payment method below.
- 12 Month Interest Free Loan Option – Select payment method below for 20% deposit and complete and return the 12 Months Interest Free Loan Application Form on page 96 and 97 of the PDS.
- Principal and Interest Loan Option – Select payment method below for 10% deposit and complete and return the Principal and Interest Loan Application Form which can be obtained by contacting TFS.

PAYMENT METHOD:

Cheque: _____ | Please enclose cheque made payable to TFS Properties Ltd

Credit Card: _____ | Cardholders Name: _____ | Card Type: MC/Visa

_____ | Card Number: _____ | Amount: _____

_____ | Expiry: _____ | VCC: _____ | Signature: _____

Direct Debit: _____ | Account Name: _____ | BSB: _____

_____ | Account No: _____ | Signature: _____

SECTION 5 – ELECT TO COLLECT AND MARKET PRODUCE

Elect to collect & market Harvest produce from my/our Sandalwood Lot(s)

SECTION 6 – SIGNING THE APPLICATION FORM

I/We hereby acknowledge and agree that:

- I/We the undersigned applied for the number of Sandalwood Lots specified above;
- I/We have read the Product Disclosure Statement to which this Application Form relates.
- I/We have not relied on any statements or representations made by any party (including TFS and its officers, agents and employees) prior to applying, other than those written representations made in the PDS;
- I/We agree to be bound by the terms of the Constitution and the Lease and Management Agreement (as amended) or the Agreement for Sub-Lease (as applicable).
- If signed under Power of Attorney, the Attorney states that no notice of revocation of the Power of Attorney under which this Application Form is signed has been received.
- Acceptance of this Application for Sandalwood Lots (in whole or in part) will be constituted by execution of the Lease and Management Agreement by the Responsible Entity on my/our behalf, without further communication of acceptance by me.
- I/We appoint Steinepreis Paganin as my/our agent solely for the purpose of preparing, executing and lodging a caveat at Landgate in respect of my/our interest in the Sandalwood Lots.
- I/We provide a power of attorney in favour of TFS Properties Limited on the terms outlined below.
- I/We authorise payments from credit card or direct debit as stated in Section 4 of this Application Form.
- TFS can provide information on the status of my investment to my/our nominated adviser.

Date: _____

Individuals:

Signature

Full Name

Corporation or Trust: Executed in accordance with the Corporations Act

Director/Trustee Signature

Full Name

Signature

Full Name

Director/Secretary/Trustee Signature

Full Name

Financial Adviser Details:

Name: _____

Company: _____

Dealer Group: _____

Contact Number: _____

Email: _____

Dealers Stamp:

POWER OF ATTORNEY

By signing this Application Form, I/we the person named in the 'Details of Applicants' section appoint TFS Properties Ltd (ACN 093 330 977) of 169 Broadway, Nedlands, Western Australia ('Attorney') to be my/our attorney and in my/our name and in my/our behalf and as my/our act and deed to:

- enter into and execute on my/our behalf an Agreement for Sub-Lease or a Lease and Management Agreement in respect of the Sandalwood Lots I/we have applied for and which TFS Properties accepts pursuant to the Constitution; and
- register an interest in the Lease or Plantation on my behalf at Landgate; and
- to do all things necessary or expedient to give effect to those documents including, but not limited to, making any variations, replacements and cancellations to the documents which the Attorney considers not contrary to the interests of the Applicant,

By granting this Power of Attorney, you do so on the following terms and conditions:

- a. you will ratify whatever the Attorney does in the exercise of the power granted by you;
- b. you will indemnify and keep indemnified the Attorney against all claims, demands, costs, damages, losses and expenses, howsoever arising consequent upon the exercise of the power granted by you except in the event of gross negligence, fraud or wilful default by the Attorney;
- c. the Attorney may, and where required will, stamp and register this instrument at the cost of the Applicant;
- d. any person or corporation dealing with the Attorney in good faith may accept a written statement signed by the Attorney to the effect that this Power of Attorney has not been revoked as conclusive evidence of that fact;
- e. this Power of Attorney is irrevocable until the expiration of the Project under the Constitution; and
- f. the authorisation in writing of any variations, replacements or cancellations referred to above may be by facsimile or any other form of written confirmation.

12 MONTHS INTEREST FREE LOAN APPLICATION FORM

Applicants Name: _____

The number of Sandalwood Lot(s) applied for is: _____

Total amount payable on application as per Section 3 of the Grower Application Form:	\$	_____
Less 20% Deposit	\$	_____
Plus Administration Fee	\$	100.00
Total Loan Amount:	\$	_____

FINANCIAL POSITION OF APPLICANT(S)

Total Assets = \$ _____ | Total Liabilities = \$ _____

PAYMENT METHOD – DEPOSIT & MONTHLY LOAN REPAYMENTS:

1–11 lots: A 20% deposit of \$1,485 per lot is payable on Application. The remaining portion plus the administration fee to be paid in 12 equal instalments which will be debited from your nominated account on the 30th day of each month after your Application has been accepted. A payment schedule will be sent to you on acceptance.

12 or more lots: A 20% deposit of \$1,430 per lot is payable on Application. The remaining portion plus the administration fee to be paid in 12 equal instalments which will be debited from your nominated account on the 30th day of each month after your application has been accepted. A payment schedule will be sent to you on acceptance.

DEPOSIT:

Please complete your deposit payment details in Section 4 on the Application Form on page 94 of the PDS

MONTHLY INSTALMENTS:

Please choose your method of payment for your monthly instalments:

<input type="checkbox"/> Credit Card:	Cardholders Name: _____	Card Type: MC/Visa
	Card Number: _____	Amount: _____
	Expiry: _____	VCC: _____
		Signature: _____
<input type="checkbox"/> Direct Debit:	Account Name: _____	BSB: _____
	Account No: _____	Signature: _____

SUPPORTING DOCUMENTS:

The following Proof of Identification is attached to my Application (required for all Applicants and directors):

- Copy of Drivers license or
- Copy of Passport

Company/Trust Loans: Loans to companies or trusts must be supported by a guarantee(s) from Directors/Trustees.

DIRECT DEBIT SERVICE AGREEMENT:

By signing the direct debit request you:

- have authorised the Provider to arrange for the funds to be debited from your account. If there are insufficient funds in your account to meet a direct payment, you may be charged a fee from your financial institution and by the Provider;
- warrant and represent that you are duly authorised to request the debiting of payments from the relevant account;
- authorise that this direct debit will remain in force until cancelled, deferred or otherwise altered; and
- acknowledge that the direct debit will be provided by you to the Provider on the terms contained in the Direct Debit Service Terms (Terms).
- Direct Debits will be made on the 30th day of each month.

APPLICANT'S ACKNOWLEDGMENTS, DECLARATION AND SIGNATURES

To be completed by all 12 Month Interest Free Loan Applicants.

Important Information

By selecting the 12 Month Interest Free Loan Option in Section 4 of the Grower Application Form to request the Provider provide a loan to the Applicant, I/we acknowledge and declare that:

- I/We have read and understood the Loan Agreement and the Direct Debit Service Agreement (refer to pages 98 to 107) to an extent that, I/we consider necessary and have had the opportunity to seek independent professional advice.
- I/We am a resident of Australia.
- I/We to be bound by the Loan Agreement and the Direct Debit Service Agreement (refer to pages 98 to 107), I/we agree to the terms of each agreement
- I/We confirm the Total Assets and Liabilities details on page 96 are true and correct.
- I/We have not relied on any statements or representations made by any party (including the Provider) prior to the Applicant applying for a loan or any investment in the TFS Sandalwood Project 2013.
- Any loan to be provided to me/us by the Provider is to be applied for business or investment purposes. I/We further acknowledge that I/we may lose my/our protection under the Consumer Credit Code.
- I/We know the Provider will be relying on the information (and any other information I/we might provide the Provider) when providing Financial Accommodation to the Applicant.
- The Provider may accept or reject my/our Application at its sole and absolute discretion and that upon acceptance, I/we agree to be bound by the terms of the Loan Agreement and the Direct Debit Service Agreement.
- By signing and returning this Loan Application I/we am/are doing so as a deed poll, irrevocably and in accordance with the terms of this Application (including the Loan Agreement and the Direct Debit Service Agreement).
- The Provider can provide information on the status of this loan facility to my/our nominated adviser.
- I/We have read and understood that:
 - Monies invested in the TFS Sandalwood Project 2013 do not represent deposits or other liabilities of TFS and are subject to investment risk including possible delays in repayment and loss of income or capital invested;
 - TFS does not stand behind the capital value nor do they guarantee the performance of this investment or the underlying assets; and
 - TFS does not guarantee or provide assurance in respect of its obligations of the TFS Sandalwood Project 2013;
- My/Our obligations under the Loan Agreement and the Direct Debit Service Agreement including my/our obligations to pay money, interest, costs, fees and charges or guarantee the obligations of the Applicant are not affected by:
 - The success or failure of the TFS Sandalwood Project 2013;
 - The level of return from or loss of money invested in the TFS Sandalwood Project 2013;
 - Any breach by the Responsible Entity of the TFS Sandalwood Project 2013;
 - Any illegality in connection with the TFS Sandalwood Project 2013, or any Product Disclosure Statement issued with respect to the TFS Sandalwood Project 2013.

INDIVIDUAL APPLICANT(S):

CORPORATE APPLICANTS:

LOAN GUARANTORS

Date

Date

Date

Signature

Director Signature

Signature

Name

Director Name

Name

Signature

Director/Secretary Signature

Signature

Name

Director/Secretary Name

Name

Witness Signature

Witness Signature

Witness Name

Witness Name

Address of Witness

Address of Witness

Occupation of Witness

Occupation of Witness

DIRECT DEBIT REQUEST SERVICE AGREEMENT

DEFINITIONS

- **"account"** means the account held at your financial institution from which we are authorised to arrange for funds to be debited.
- **"agreement"** means this Direct Debit Request Service Agreement between you and us.
- **"business day"** means a day other than a Saturday, Sunday or a public holiday listed in the State of Western Australia.
- **"debit day"** means the day the payment by you to us is due.
- **"debit payment"** means a particular transaction where a debit is made.
- **"direct debit request"** means the direct debit request between us and you.
- **"us or we"** means the Provider which you have authorised by signing a direct debit request.
- **"you"** means the client who signed the direct debit request.
- **"your financial institution"** is the financial institution where you hold the account that you have authorised us to arrange to debit.

1. Debiting your Account

- 1.1. This agreement covers drawings by the Provider against a client's nominated account in all events covered by any written agreement between us and you.
- 1.2. By signing a direct debit request, you have authorised us to arrange for funds to be debited from your account. If the debit falls on a day that is not a business day, we may debit your account on the prior business day.

2. Changes by Us

- 2.1. We may vary any details of this agreement or a direct debit request at any time by giving you at least fourteen (14) days written notice.

3. Changes by You

- 3.1. Subject to 3.2 and 3.3, you may change the arrangements under a direct debit request by contacting us.
- 3.2. If you wish to stop or defer a debit payment, you must notify us in writing at least five (5) business days before the next debit day. This notice should be given to us in the first instance.
- 3.3. You may also cancel your authority for us to debit your account at any time by giving us at least thirty (30) days notice in writing before the next debit day, provided alternative arrangements are made for any amounts owing to us. This notice should be given to us in the first instance.

4. Your Obligations

- 4.1. It is your responsibility to ensure that there are sufficient clear funds available in your account to allow a debit payment to be made in accordance with the direct debit request.
- 4.2. If there are insufficient clear funds in your account to meet a debit payment:
 - a) you may be charged a fee and/or interest by your financial institution;
 - b) you may also incur fees or charges imposed or incurred by us;
 - c) you must arrange for the debit payment to be made by another method or arrange for sufficient clear funds to be in your account by an agreed time so that we can process the debit payment; and
 - d) you should check your account statement to verify that the amounts debited from your account are correct.

5. Dispute

- 5.1. If you believe that there has been an error in debiting your account, you should notify us or your financial institution as soon as possible so that your query can be resolved.
- 5.2. If we conclude as a result of our investigations that your account has been incorrectly debited, we will respond to your query by arranging a credit into your account to adjust your account accordingly. We will also notify you in writing of the amount by which your account has been adjusted.
- 5.3. If we conclude as a result of our investigations that your account has not been incorrectly debited, we will respond to your query providing you with reasons and any evidence for this finding.
- 5.4. Should the error be caused by your financial institution, this matter will need to be directly resolved between you and your financial institution.

6. Accounts

- 6.1. You should check:
 - a) with your financial institution whether direct debiting is available from your account, as direct debiting is not available on all accounts offered by financial institutions;
 - b) your account details which you have provided to us are correct, by checking them against a recent account statement; and
 - c) with your financial institution before completing the direct debit request if you have any queries about how to complete the direct debit request.

7. Confidentiality

- 7.1. We will keep any information (including your account details) in your direct debit request confidential. We will make reasonable efforts to keep any such information that we have about you secure and to ensure that any of our employees or agents who have access to information about you do not make any unauthorised use, modification, reproduction or disclosure of that information.
- 7.2. We will only disclose information that we have about you:
 - a) to the extent specifically required by law; or
 - b) for the purposes of this agreement (including disclosing information in connection with any query or claim).

8. Notice

- 8.1. If you wish to notify us in writing about anything relating to this agreement, you should write to us care of TFS, 169 Broadway, Nedlands WA 6009 or contact us via phone: (08) 9386 3299.
- 8.2. We will notify you by sending a notice in the ordinary post to the address on our records.
- 8.3. Any notice will be deemed to have been received two (2) business days after it is posted.

CONSENTS – PRIVACY ACT

Consent and Acknowledgment for Applicants applying under the 12 Month Interest Free Loan Option

I/We authorise the Provider to obtain certain credit information to enable assessment of my/our Application for commercial or personal credit. I/We authorise the Provider:

- To obtain from a credit reporting agency a credit report containing personal information about me/us in relation to personal credit provided by the Provider.
- To obtain from a credit reporting agency a credit report containing personal information about me/us in relation to commercial credit provided by the Provider. This is in accordance with the Privacy Act 1988 (Act).
- To obtain a report containing information about my/our commercial activities or commercial credit worthiness from a business which provides information about the commercial credit worthiness of a person in relation to personal credit provided by the Provider. This is in accordance with the Act.
- To obtain a report from a credit reporting agency any other information in relation to my/our commercial credit activities.
- To obtain personal information about me/us from any motor vehicle or driver's licence registry in Australia, if required.

I/We understand that the Act allows the Provider to give a credit reporting agency certain personal information about me/us which I/we authorise the Provider to do. The information which may be given to the agency is covered by Section 18E(1) of the Act and includes:

- Details to identify me/us. For example name, sex, date of birth, current address, my/our current or last known employer and my/our drivers licence number.
- The fact that I/we have applied for credit and the amount.
- The fact that the Provider is a credit provider to me/us.
- Payments which become overdue by more than sixty (60) days.
- Cheque(s) drawn by me/us which have become dishonoured.
- Advice that payments are no longer overdue.
- In specified circumstances, that in the opinion of the Provider, I/we have committed a serious credit infringement.
- That the credit provided to me/us has been paid or otherwise discharged.

In accordance with the Act, I/we authorise the Provider to give and obtain from credit providers named in the credit application and that may be named in the credit report issued by a credit reporting agency, information about my/our credit worthiness, credit standing, credit history or credit capacity that credit providers are allowed to give or receive from each other under the Act.

LOAN AGREEMENT

THIS Agreement is made on the date set out in page 97 of the PDS

BETWEEN

ARWON FINANCE PTY LTD ACN 072 486 643 of 169 Broadway, Nedlands WA 6009 (Lender)

AND

The entity whose name (ACN if applicable) and address are set out in section 2 of the Grower Application Form (Page 94) AND

The entity whose name (ACN if applicable) is set out at page 97 of the PDS (GUARANTORS)

RECITALS

A. The Lender at the request of the Borrower has agreed to advance the Principal Sum to the Borrower upon the terms and conditions hereinafter contained. The Guarantor hereby agrees to act as guarantor in respect of the Secured Monies on the terms and conditions contained in this Agreement.

NOW BY THIS DEED it is agreed and declared as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement unless the contrary intention appears:

"Business Day" means a day on which the major trading banks are open for business in Western Australia and Victoria;

"Corporations Law" means the Corporations Act 2001 of the Commonwealth;

"Date of Advance" means a date that the Principal Sum or part of the Principal Sum is advanced by the Lender to the Borrower pursuant to Clause 2, and being 30 June 2013.

"Date of Execution" means the date on page 94 of this PDS;

"Event of Default" means the occurrence of one of the events set out in clause 7.

"Event of Insolvency" means:

- (a) a receiver, manager, receiver and manager, trustee, administrator, controller or similar officer is appointed in respect of a person or any asset of a person;

- (b) a liquidator or provisional liquidator is appointed in respect of the corporation;

- (c) any Application (not being an Application withdrawn or dismissed within 7 days) is made to a court for an order, or an order is made, or a meeting is convened, or a resolution is passed, for the purposes of:

- (i) appointing a person referred to in paragraphs (a) or (b);

- (ii) winding up a corporation; or

- (iii) proposing or implementing a scheme of arrangement;

- (d) any event or conduct occurs which would enable a court to grant a petition, or an order is made, for the bankruptcy of an individual or his estate under any Insolvency Provision;

- (e) a moratorium of any debts of a person, or an official assignment, or a composition, or an arrangement (formal or informal) with a person's creditors, or any similar proceeding or arrangement by which the assets of a person are subjected conditionally or unconditionally to the control of that person's creditors or a trustee, is ordered, declared, or agreed to, or is applied for and the Application is not withdrawn or dismissed within 7 days;

- (f) a person becomes, or admits in writing that it is, is declared to be, or is deemed under any applicable law to be, insolvent or unable to pay its debts; or

- (g) any writ of execution, garnishee order, *mareva* injunction or similar order, attachment, distress or other process is made, levied or issued against or in relation to any asset of a person.

"Grower" means a person who enters into a Lease and Management Agreement and who is identified as a **"Grower"** in the Project and **"Growers"** means more than one Grower;

"Insolvency Provision" means any law relating to insolvency, sequestration, liquidation or bankruptcy (including any law relating to the avoidance of conveyances in fraud of creditors or of preferences, and any law under which a liquidator or trustee in bankruptcy may satisfy or avoid transactions), and any provision of any agreement, arrangement or scheme, formal or informal, relating to the administration of any of the assets of any person.

"Lease and Management Agreement" means an agreement called a Lease and Management Agreement relating to the Project, to which the Borrower is a party and pursuant to which the Borrower, as a Grower, leases or sub-leases one or more Sandalwood Lots and engages another party to manage that Sandalwood Lot or those Sandalwood Lots;

"Leased Area" means, in relation to the Borrower, that specified part of the Plantation as identified in the Annexure to the Lease and Management Agreement (comprising one or more Sandalwood Lots) to be Leased or sub-leased by the Grower;

"Loss" includes claim, liability, cost or expense;

"Mortgaged Property" means all of the Borrower's right title and interest for the time being in:

- (a) the Project, including, without limitation a Sandalwood Lot forming part of a Project, the raw materials growing therein, the products produced from those materials, the proceeds of sale of such products and the proceeds of any insurance in relation to the Borrower's interest in the Project; and
- (b) the Project Agreements, including without limitation the Project Interest;

"Obligations" means all the liabilities and obligations of any Obligor to Lender under or by reason of this Agreement and includes any liabilities or obligations which:

- (a) are liquidated or unliquidated;
 - (b) are present, prospective or contingent;
 - (c) are in existence before or come into existence on or after the date of this charge;
 - (d) relate to the payment of money or the performance or omission of any act;
 - (e) sound in damages only; or
 - (f) accrue as a result of any Event of Default,
- and irrespective of:

- (g) whether any Obligor is liable or obligated solely, jointly or jointly and severally with another person;
- (h) the circumstances in which the Lender comes to be owed each liability or obligation and in which each liability or obligation comes to be secured by this charge, including any assignment of any liability or obligation or of this charge; or
- (i) the capacity in which any Obligor and the Lender comes to owe or to be owed that liability or obligation;

"Obligor" means the Borrower and the Guarantor;

"Parties" means the Lender, the Borrower and the Guarantor (if applicable) and "Party" is a reference to either one of them as the context requires;

"Plantation" means the land on which the Project is conducted;

"Principal Sum" means the total amounts set out and described in page 96 of the PDS

"Project" means the TFS Sandalwood Project 2013 (ARSN 161 604 806);

"Project Agreements" means the agreements to which the Borrower becomes a party and/or which relate to the Borrower's Project Interest, including the Constitution and Compliance Plan for the Project as well as the Lease and Management Agreement;

"Project Interest" means an interest in the Project held by a Grower, comprising the rights, liabilities and obligations of a Grower contained in a Lease and Management Agreement, the Constitution for the Project and any other relevant documents as they relate to the Sandalwood Lot(s) sub-leased by the Grower;

"Receiver" means a receiver appointed under this Agreement and includes a receiver manager;

"Sandalwood Lot" means a specified area forming part of the Plantation which is sub-leased or intended to be sub-leased to a Grower as more particularly delineated on the Plan attached to a Lease and Management Agreement and "Sandalwood Lots" means more than one Sandalwood Lot.

"Security Interest" means any bill of sale, mortgage, charge, lien, pledge, hypothecation, title retention arrangement, trust or power, as or in effect as security for the payment of money or observance of any other obligation;

"Secured Moneys" means all money the payment or repayment of which from time to time forms part of the Obligations;

"State" means the state of Western Australia;

"Term" means 12 months commencing the 30th day after your Application has been accepted.

1.2 Interpretation

In this Agreement unless the contrary intention appears:

- (a) a reference to a clause, schedule or annexure is a reference to a clause of or schedule or annexure to this Agreement and references to this Agreement include any recital, schedule or annexure;
- (b) a reference to this Agreement or another instrument includes any variation or replacement of either of them;
- (c) headings and the table of contents are for convenience only and shall not affect the interpretation hereof;
- (d) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (e) the singular includes the plural, the plural includes the singular and any gender includes each other gender;
- (f) the word person includes an individual, a firm, a corporate entity, an unincorporated entity, a partnership, or government authority;
- (g) a reference to a person includes that person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (h) an agreement, representation or warranty in favour of two or more persons is for the benefit of them jointly and severally;

- (i) an agreement, representation or warranty on the part of two or more persons binds them jointly and severally;
- (j) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (k) where the day or last day for doing an action or for the payment of any money or on which any entitlement is due to arise or a notice is deemed served is not a Business Day, the day or last day for doing that action or payment of that money or on which that entitlement arises or notice is deemed served, shall be deemed to be the next Business Day;
- (l) where any requirement, calculation or payment of money might otherwise fall to be performed or paid on the 29th, 30th or 31st day of a month which does not contain such a date, then references thereto shall be construed as reference to the last day of that month;
- (m) a day means the period of time commencing at midnight and ending 24 hours later;
- (n) a month means a calendar month;
- (o) a reference to currency is a reference to Australian currency;
- (p) including is deemed to be followed by the words, but not limited to;
- (q) no rule of construction of Agreements shall apply to the disadvantage of a Party on the basis that that Party put forward this Agreement or any relevant part of it;
- (r) where any word or phrase is given a defined meaning, any other part of speech or other grammatical form in respect of such word or phrase shall have a corresponding meaning;
- (s) a reference to:
 - (i) a right includes a benefit, remedy, discretion, authority or power;
 - (ii) an obligation includes a warranty or representation;
 - (iii) a failure to observe or perform an obligation includes a breach of warranty or representation;
 - (iv) provisions or terms of this Agreement include a reference to both express and implied provisions or terms;
 - (v) writing includes any means or mode of representing or reproducing words in a tangible and permanently visible form, and includes facsimile transmissions; and
 - (vi) signature and signing includes due execution by a corporation or other relevant entity.

2. ADVANCE

2.1 Principal Sum

The Lender hereby agrees to advance to the Borrower that part of the Principal Sum to be advanced on the relevant Date of Advance, for the Term. The purpose of the advance of the Principal Sum is to enable the Borrower to subscribe for one or more Project Interests.

2.2 Disbursement of Principal Sum

The Borrower authorises the Lender to pay on behalf of the Borrower from the Principal Sum all monies due and owing or required to be paid by the Borrower to any party pursuant to the Project Agreements.

3. REPAYMENT

3.1 Instalments of the Principal Sum

The Borrower agrees to pay to the Lender the Principal Sum by 12 equal monthly instalments. The instalments will commence on the 30th day of the month after the Project Application has been accepted.

4. SECURITY

The Borrower HEREBY CHARGES as beneficial owner, all of its right, title and interest for the time being in the Mortgaged Property to secure the satisfaction of the Obligations and the repayment or payment of the Secured Moneys. Until finally discharged, the security constituted by this Agreement is to be a continuing security for the observance and performance of the Borrower's obligations under this Agreement.

5. BORROWER'S COVENANTS

- (a) The Borrower will insure the Mortgaged Property and keep it insured for its full insurable value at all times while any of the Secured Moneys remain outstanding or owing by the Borrower to the Lender.
- (b) The Borrower will on written demand by the Lender produce for inspection by the Lender the relevant policy of insurance with the Lender's interest noted on the policy and evidence of payment of the relevant insurance premium within two Business Days of such demand being made.

Without the prior written consent of the Lender, the Borrower must not:

- (a) dispose of, deal with, or part with possession of any interest in the Mortgaged Property; or
- (b) create or allow to exist a Security Interest which affects the Mortgaged Property; or
- (c) waive any of its rights, or release any person from its obligations in connection with the Mortgaged Property.

6. LENDER'S POWER

At any time and without any requirement to obtain the consent of the Borrower, the Lender may create or allow to exist a Security Interest over or an interest in this Agreement or assign or otherwise dispose of or deal with its rights under this Agreement.

7. EVENTS OF DEFAULT

Upon the happening of an Event of Default (as defined below), the whole of the Secured Moneys (including without limitation all Interest accrued up to and including the date of the Event of Default) will become due and payable immediately, notwithstanding any delay or previous waiver of the right to exercise such right. The following constitute an Event of Default:

- (a) if the Borrower makes default in the performance of any of its obligations under this Agreement and fails to rectify that default within fourteen (14) days after receipt of written notice from the Lender specifying the default and requiring it to be rectified;
- (b) an Event of Insolvency occurs in relation to the Borrower; or
- (c) if the Borrower, being the trustee of a trust fails on its retirement as trustee of the trust to appoint a successor as trustee of the trust and to cause such successor to execute such documents as the Lender reasonably requires to ensure that this Agreement is binding on the successor.

8. EXERCISE OF RIGHTS

Without limiting the generality of the foregoing, if an event of default occurs under Clause 7 and if the whole of the Secured Moneys are not immediately paid to the Lender in accordance with the provisions of this Agreement, the Lender may exercise all or any of the following rights:

- (a) the Lender may exercise any of the rights and powers set out in the Property Law Act (VVA) or corresponding laws of any other jurisdiction, including without limitation the powers of a mortgagee upon default and the power to appoint a Receiver. Any Receiver so appointed has such further powers and discretions as the Lender may by notice in writing to the Borrower and the Receiver reasonably confer upon the Receiver; or
- (b) the Lender may sell the Mortgaged Property immediately upon or at any time after an event of default has occurred in such manner and upon such terms and conditions as the Lender thinks fit without any further notice unless such notice is required by law.

9. APPLICATION OF MONIES

All moneys which may become payable in respect of the Mortgaged Property or upon or pursuant to the exercise of the powers of the Lender or a Receiver or any other person will be applied in the following order:

- (a) first, in payment of all reasonable costs, charges and expenses incurred by the Lender in relation to this Agreement and its enforcement;
- (b) secondly, towards payment of the Receiver's remuneration (if any), which remuneration will be such sum as is agreed between the Lender and the Receiver;
- (c) thirdly, towards all Interest due under this Agreement;
- (d) fourthly, in payment of all of the Principal Sum then owing, whether or not due; and
- (e) fifthly, to the extent not otherwise applied, to the Borrower or any other person entitled to it.

10. BORROWER AND GUARANTOR'S REPRESENTATIONS

10.1 Warranties

The Borrower represents and warrants to the Lender that:

- (a) the Borrower has fully disclosed in writing to the Lender all facts relating to this loan transaction which it knows or should reasonably know and which are material for disclosure to the Lender in the context of this Agreement;
- (b) the financial information disclosing the financial condition of the Borrower most recently provided to the Lender represents a true and fair view of the financial condition of the Borrower as at the date thereof and there has been no material or adverse change in that condition since that date;
- (c) the Borrower will as from the date hereof and for so long as any of the Principal Sum remains outstanding, furnish to the Lender from time to time such information regarding the financial condition of the Borrower as the Lender may reasonably request;
- (d) the Borrower agrees to duly perform and observe all of its obligations under this Agreement and the Project Agreements;
- (e) the Borrower's decision to participate in the Project and to borrow the Principal Sum has been made by the Borrower without any statement, representation or conduct from the Lender as to the performance of the Project or any return or as to the likelihood of the availability of taxation deductions or other concessions as a result of participation in the Project; and

- (f) in the event that the Borrower is a trustee of a trust, that the Borrower is empowered by the provisions of the deed establishing the trust to enter into this Agreement and the Borrower undertakes to:
 - (i) exercise its right of indemnity from the trust fund of the trust and the beneficiaries of the trust in respect of obligations incurred by it under this Agreement;
 - (ii) observe its obligations as trustee of the trust; and
 - (iii) cause any successor of the Borrower as trustee of the trust to execute such documents as the Lender reasonably requires to ensure that this Agreement is binding on such successor.
- (b) delegate its powers (including, without limitation, this power of delegation) to any person for any period and may revoke a delegation; and
- (c) exercise or concur in exercising its powers even if the attorney has a conflict of interest or duty in exercising its powers or has a direct or personal interest in the means or result of that exercise of powers.

11.2 Ratification

The Borrower agrees to ratify anything done by an attorney or its delegate in accordance with the provisions of this Clause 11.

10.2 Guarantor's Warranties

The Guarantor represents and warrants to the Lender that:

- (a) this Agreement is in all respects valid and binding on the it and is enforceable in accordance with its terms;
- (b) it is not entering into this Agreement as trustee of any trust; and
- (c) it is solvent.

10.3 Own Advice

Each Obligor acknowledges that prior to having executed this Agreement, it has:

- (a) carefully read the terms and conditions of this Agreement and has understood them;
- (b) not relied upon any advice, statement, representation or warranty made by the Lender or the Lender's solicitors or their employees or agents; and
- (c) taken or will take his or her own independent legal advice in respect of this Agreement and all relevant matters.

11. ATTORNEY

11.1 Appointment

In consideration of the Lender entering into this Agreement and agreeing to advance the Principal Sum to the Borrower, the Borrower hereby irrevocably appoints the Lender, any nominee of the Lender, each authorised officer of the Lender and each Receiver, severally its attorney. Each attorney may:

- (a) in the name of the Borrower or the attorney, do anything which the Borrower may lawfully authorise an attorney to do in connection with this Agreement or the Mortgaged Property and which in the attorney's opinion is necessary or expedient to give effect to any right, power or remedy conferred on the Lender or a Receiver by this Agreement, by law or otherwise, including, without limitation demanding, suing for, recovering and receiving the Mortgaged Property from any person, executing documents and instituting, conducting and defending legal proceedings; and

12. NOTICES

12.1 Method of Giving Notices

A notice which is required or permitted to be given by one Party to another under this Agreement must be in writing and be:

- (a) delivered by hand to that other Party's address;
- (b) sent by pre-paid mail to that other Party's last known address; or
- (c) transmitted by facsimile to that other Party's last known facsimile number.

12.2 Time of Receipt

A notice given to a Party in accordance with this clause is treated as having been duly received:

- (a) when delivered (in the case of it being left at that Party's address);
- (b) on the third (3rd) Business Day after posting (in the case of it being sent by pre-paid mail);
- (c) on the day of transmission (if a Business Day) or, if not a Business Day, on the next Business Day, if given by facsimile and sent to the facsimile receiver number of that Party and no intimation having been received that the notice had not been received, whether that intimation comes from that Party or from the operation of facsimile machinery or otherwise.

12.3 Address of Parties

For the purposes of this clause, the address of a Party is the address set out in this Agreement or another address of which that Party may from time to time give written notice to each other Party.

13. SUMS EXCLUDE GST

13.1 Definitions

In this Agreement the expressions "consideration", "GST", "input tax credit", "supply", "recipient" and "taxable supply" have the meanings given to those expressions in the A New Tax System (Goods and Services Tax) Act 1999.

13.2 Sums Exclude GST

Unless otherwise expressly stated, all prices or other sums payable or consideration to be provided under this Agreement are exclusive of GST.

13.3 Responsibility for GST

Despite any other provision in this Agreement, if GST is imposed on any supply made under this Agreement, the Borrower must pay to the Lender an amount equal to the GST payable on the taxable supply. The Borrower must pay this amount in addition to and at the same time as payment for the taxable supply is required to be made under this Agreement.

13.4 Reimbursement of Expenses

If this Agreement requires a Party to reimburse any other Party for any expense, loss or outgoing ("reimbursable expense") incurred by another Party, the amount required to be reimbursed by the first Party will be the sum of:

- (a) the amount of the reimbursable expense net of input tax credits (if any) to which the other Party is entitled in respect of the reimbursable expense; and
- (b) if the other Party's recovery from the first Party is a taxable supply, any GST payable in respect of that supply.

14. GENERAL PROVISIONS

14.1 Costs And Stamp Duty

The Borrower agrees to pay or reimburse the Lender on demand for all costs, charges and expenses:

- (a) of and incidental to this Agreement and the registration thereof, including all stamp duties and registration fees;
- (b) incurred in consequence of any default by the Borrower or in the due performance or observance of any covenant, term or condition of this Agreement (whether express or implied);
- (c) of and incidental to any assignment and/or discharge hereof; and
- (d) in respect of any liability of the Lender for stamp duty arising out of any receipt of money or other transaction between the Borrower and the Lender.

14.2 Default Costs

Any Party in default under any provision of this Agreement, on demand shall pay all solicitors costs and expenses incurred by any other Party arising out of that default or from the exercise of any remedy exercisable as a result of that default.

14.3 Default/Interest

In the event of default the Borrower shall pay the lender interest on overdue amounts at a rate of 15% per annum calculated on a daily basis from the due date until payment is received.

14.4 Amendment

A variation or waiver of, or any consent by a Party to any departure from, a provision of this Agreement is only effective if it is in writing and signed by the Parties. That variation, waiver or consent is effective only to the extent for which it is made or given.

14.5 Waiver

The failure, delay, relaxation or indulgence on the part of any Party in exercising any power or right conferred upon that Party by this Agreement does not operate as a waiver of that power or right. Any single exercise of any power or right does not preclude any other or further exercise of it or the exercise of any other power or right under this Agreement.

14.6 Entire Agreement

This Agreement constitutes the sole and entire agreement between the Parties concerning the subject matter hereof. A warranty, representation, guarantee or other term or condition of any nature relating to that subject matter, that is not contained, recorded, or referred to in this Agreement, is of no force or effect.

14.7 Severance

If any provision of this Agreement or the application of that provision to any person or circumstance is or becomes invalid or unenforceable, then the remaining provisions of this Agreement are not affected and are valid and enforceable to the fullest extent permitted by law. This clause has no effect if the severance alters the basic nature of this Agreement.

14.8 Further Assurance

Each Party must do, sign, execute and deliver and must procure that each of its employees and agents does, signs, executes and delivers all deeds, documents, instruments and acts reasonably required of it or them by notice from another Party to effectively carry out and give full effect to this Agreement and the rights and obligations of the Parties under it.

14.9 Counterparts

This Agreement may be executed by more than one (1) counterpart and all of those counterparts taken together constitute one (1) and the same instrument.

14.10 Attorneys

Where this Agreement is executed by an attorney on behalf of a Party, that attorney by executing declares that he has:

- (a) the necessary and appropriate authority to execute this Agreement for and on behalf of the Party; and
- (b) no notice of the revocation of the power of attorney under the authority of which he executes this Agreement on behalf of that Party.

14.11 Governing Law and Jurisdiction

This Agreement is governed by, and is to be construed in accordance with the law for the time being of the State. The Parties hereby agree to submit to the non-exclusive jurisdiction of the Courts of the State.

14.12 Compliance with Laws

In the performance of their obligations under this Agreement, the Parties shall comply with all applicable laws, rules regulations and by-laws of the Commonwealth, the State and any other jurisdiction and with all lawful orders and directions of any competent governmental body or government authority of the Commonwealth, the State or any other jurisdiction.

14.13 Time of the Essence

Time shall be of the essence of this Agreement in all respects.

14.14 Remedies cumulative

The rights, powers and remedies provided in this Agreement are cumulative with and not exclusive of the rights, powers and remedies provided by law independently of this Agreement.

14.15 Approvals and Consents

Where this Agreement provides for a Party to give its approval or consent, the Party may give it conditionally or unconditionally or withhold it, unless this Agreement otherwise provides.

14.16 Payments

A Party liable to make a payment under this Agreement is to make the payment without set off, counterclaim or deduction. The Party to whom a payment is to be made need not make a demand for payment unless a demand is expressly required.

15. GUARANTEE

15.1 The Guarantee

The Guarantor irrevocably and unconditionally agrees to guarantee to the Lender the performance and observance by the Borrower of all of its obligations under this Agreement.

15.2 Indemnity

The Guarantor as a separate additional and primary liability irrevocably and unconditionally agrees to indemnify the Lender and keep the Lender indemnified against any cost, loss, damage, claim, demand or action suffered by the Lender arising from:

- (a) any failure by the Borrower to satisfy the Obligations; or
- (b) any obligation or liability that would otherwise form part of the Obligations being void, voidable or unenforceable against or irrecoverable from the Borrower for any reason, whether or not the Lender knew or ought to have known of that reason.

15.3 Continuing Guarantee

This is a continuing guarantee and, subject to clause 15.4, binds the Guarantor notwithstanding:

- (a) the bankruptcy or liquidation of the Borrower;
- (b) any indulgence, waiver or extension of time given by the Lender to the Borrower; or
- (c) any other fact, matter or thing.

15.4 Guarantor Acknowledgement

If a Guarantor is an individual person, that Guarantor agree and acknowledges that he or she has:

- (a) read the terms and conditions of this Agreement and has understood them; and
- (b) has received independent legal advice in relation to this Agreement and all relevant matters pertaining to this Agreement and the guarantee in this clause 15.

15.5 Termination of Guarantee

The Parties agree and acknowledge that the guarantee given by the Guarantor shall terminate and be of no force or effect upon repayment of the Secured Moneys to the Lender and satisfaction of the Obligations in accordance with the terms of this Agreement.

15.6 Recovery from Guarantor

In the event of any breach by the Borrower of any term of this Agreement, the Lender may proceed to recover any amount of the Secured Moneys as at the date of the breach as a debt or as damages from the Guarantor, without first having instituted legal proceedings against the Borrower and without first exhausting the Lender's remedies against the Borrower.





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