

19 December 2023

Dear Investor

Important Update on TFS Sandalwood Project 2012 (Project)

On 11 October 2023, Sandalwood Properties Ltd (SPL), in its capacity as the Responsible Entity for the MIS Projects, informed investors about the engagement of KPMG to conduct an analysis of the MIS Projects and provide insights into their future prospects.

Purpose for the KPMG Review

Market conditions for the tendered sale of sandalwood have deteriorated over the last several years, resulting in adverse outcomes for recent MIS projects. Furthermore, the anticipated increase in sandalwood supply to the market is expected to exacerbate the current challenges further escalating the risk for future projects.

Our primary obligation is to act in the best interests of investors. Given the negative results of the most recent projects, and SPL's expectation of further deterioration in relation to ongoing projects, the commissioning of KPMG to undertake an independent analysis was deemed necessary for SPL to make well-informed decisions for the benefit of investors.

KPMG has now concluded its analysis and presented their final report to the SPL board. Subsequently, SPL has reviewed the report and is now able to update investors on the outcomes and the next steps.

Outcome from the KPMG Review

KPMG have formed the opinion that no return to investors is expected if the Project proceeds to a full harvest. In addition to this, the costs of proceeding to a full harvest will result in significant losses for the Project, some portions of which may subsequently be recovered from investors.

Attached to this letter is the financial assessment from KPMG as it relates to the Project.

After taking into account the findings from KPMG's review, SPL has formed the view that the Project is not viable and should be wound up on the grounds that it is just and equitable and in the best interest of investors.

We believe that winding up the Project provides the best outcome for investors due to the following reasons:

- (i) There is no anticipated return for investors if the Project proceeds to a full harvest, considering the projected yield and market demand, and the associated costs of completing the Project exceeding the gross proceeds from sale.
- (ii) There is an unacceptable risk to investors being required to contribute to the costs in proceeding to a harvest with no reasonable prospect of generating a profit.
- (iii) By winding up the Project, the obligation of investors to pay any further amounts are extinguished.

Investor Return on Windup

In a winding-up scenario, investors are estimated to receive an aggregate return of \$740,880 (approximately \$540 per sandalwood lot) which relates to a return of the upfront Annual Fee and Rent held in Trust on behalf of investors in the Project. These funds will be returned without any deduction and there is no obligation for investors to pay any further funds.

Next Steps

Pursuant to section 601ND of the Corporations Act and the provisions outlined in the Project Constitution, SPL will immediately proceed to file an application to the Supreme Court of Western Australia to seek the Court's determination on whether the Project should be wound-up. Whether the Project should be wound up will be determined by the Court. Investors will be able to participate in that process, whether that be in opposition or in support of the winding up.

An application to the Supreme Court of Western Australia is also to be made to seek the Court's determination on whether the Projects referable to other years should also be wound-up.

After the initial Directions hearing, the Court will provide instructions to SPL on the next steps, including what steps might be taken by those investors wishing to exercise a right to be heard in the proceedings. We will keep investors informed accordingly.

Annual Fees

Ordinarily we would be shortly issuing you with the Annual Fee and Rent for the year ended 30 June 2024. In light of the matters raised above, SPL does not intend to issue these invoices as it would not be in the best interests of investors to make any further payments in relation to the Project.

The issue in this regard extends beyond the prospect of the winding up of the Project. To the extent that investors might permissibly defer the payment of annual rent and annual management fees, SPL's view is that it is in investors' (separate) interests that they do so. Amounts paid now are unlikely to be recoverable in the Project.

For present purposes, SPL will not be rendering the annual invoices. This is an issue that will be raised with the Court at the first opportunity.

FAQ

We understand the gravity of this situation and have prepared a FAQ to assist investors. This FAQ and other information can be found on the SPL website – www.sandalwoodproperties.com.au

Should you have any questions or concerns, please contact our investor information line on (08) 9723 7372 or email projects@sandalwoodproperties.com.au.

Yours sincerely



Kent Burwash
Chairman
Sandalwood Properties Ltd

12 Expert's opinion on TFS Sandalwood Project 2012

12.1 Opinion 1 (Grower Outcomes)

- 12.1.1 Grower Outcomes on the basis that the scheme runs to its scheduled Harvest date and assuming Quintis **does** purchase sandalwood in the Tender Process.
- 12.1.2 Based on the assumptions and inputs detailed herein, I have calculated aggregated Grower Outcomes will be **A\$(2,954,978)** for Scheme 2012.
- 12.1.3 This indicates that there is an estimated net loss for the Scheme overall. The outcome is reported at the overall Scheme level and does not take into consideration SPL's right to recover the losses, or any part thereof, from Growers. Refer to section 17 for consideration of the recoverability for certain costs from Growers.

12.2 Opinion 2 (ex Quintis Grower Outcomes)

- 12.2.1 Ex Quintis Grower Outcomes on the basis that the Scheme runs to its scheduled Harvest date and assuming Quintis **does not** purchase sandalwood in the Tender Process.
- 12.2.2 Based on the assumptions and inputs detailed herein, I have calculated aggregated ex Quintis Grower Outcomes at a Scheme level will be **A\$(3,492,975)** for Scheme 2012.
- 12.2.3 This indicates that there is an estimated net loss for the Scheme overall. The outcome is reported at the Scheme level and does not take into consideration SPL's right to recover the losses, or any part thereof, from Growers. Refer to section 17 for consideration of the recoverability for certain costs from Growers.

12.3 Opinion 3 (Grower Outcomes – each Grower)

- 12.3.1 Grower Outcomes schedule of estimated net returns to, or contributions required from, each Grower, on the basis that the Scheme runs to its scheduled Harvest date.

- 12.3.2 A full schedule of Grower Outcomes can be found at Appendix D.1, A summary of the Scheme 2012 scheme can be seen in the Table below:

Table 46 Summary of Returns to Growers per Grower Outcomes

Grower Outcomes	Scheme 2012	
	Total (A\$)	No. of Growers
Outcome > \$0	-	-
Outcome \$0 & -\$10,000	(397,878)	77
Outcome < -\$10,000	(2,557,100)	57
Aggregate	(2,954,978)	134

- 12.3.3 Based on the current key assumptions, I do not estimate that there will be a return to Growers participating in Scheme 2012 should the Scheme run to its scheduled Harvest date.

12.4 Opinion 4 (ex Quintis Grower Outcomes – each Grower)

- 12.4.1 Ex Quintis Grower Outcomes schedule of estimated net returns to, or contributions required from, each Grower, on the basis that the Scheme runs to its scheduled Harvest date.
- 12.4.2 A full schedule of ex Quintis Grower Outcomes can be found at Appendix D.2. A summary of Scheme 2012 can be seen in the table below:

Table 47 Summary of Returns to Growers per ex Quintis Grower Outcomes

Ex Quintis Grower Outcomes	Scheme 2012	
	Total (A\$)	No. of Growers
Outcome > \$0	-	-
Outcome \$0 & -\$10,000	(327,520)	63
Outcome < -\$10,000	(3,165,455)	71
Aggregate	(3,492,975)	134

- 12.4.3 Based on the current key assumptions, I do not estimate that there will be a return to Growers participating in Scheme 2012 where Quintis does not participate in the Tender Process

12.5 Opinion 5 (Grower Outcomes – Winding Up scenario)

- 12.5.1 Grower Outcomes schedule of estimated net returns to, or contributions required from, each Grower, on the basis that the Scheme is wound up on 20 December 2023.
- 12.5.2 A full schedule of Grower Outcomes can be found at Appendix D.3. A summary of Scheme 2012 can be seen in the table below. I note that a return to Growers has been calculated based on the remittance of Trust Monies apportioned based on lot size.

Table 48 Summary of Returns to Growers per Winding Up

Winding Up	Scheme 2012	
	Total (A\$)	No. of Growers
Outcome > \$0	740,880	134
Outcome \$0 & -\$10,000	-	-
Outcome < -\$10,000	-	-
Aggregate	740,880	134

- 12.5.3 Based on the assumptions detailed in the Report, I have calculated that there will be a return to Growers should Scheme 2012 be wound up as Trust Monies currently held by the RE will be returned to Growers.

12.6 Analysis

- 12.6.1 Key scheme metrics are illustrated in the table below:

Table 49 MIS Tender Cashflow

MIS TENDER CASHFLOW	Scheme 2012	
Total Cash Inflows		\$3,138,064
Total Cash Outflows		(\$6,093,042)
Net Cashflow		(\$2,954,978)
Negatives	\$	(\$2,954,978)
Positives	\$	\$0

MIS TENDER CASHFLOW		Scheme 2012
Negatives	#	134
Positives	#	0

12.6.2 The inputs for my analysis are captured in the table below:

Table 50 Summary of Inputs for Scheme 2012

Inputs	Indexation Rate	Unit	Scheme 2012
Corresponding calendar year			2028
Harvest year			2028
Planted ha.		Ha.	113
Non-electing ha.		Ha.	100%
Harvest ha.		Ha.	113
Tonnes of HW tendered		(t)	126
Pricing achieved at tender		\$/t	25,000
Volume		(t)	250
Quintis purchases		(t)	152
Yield		HW/t	2.45
Yield reduction		%	(54.68%)
Updated yield		HW/t	1.11
Adjusted yield		HW/t	1.11
Turn on storage fees?			No
Storage costs (If turned on)	2.8%	\$	2,296
Remove sunk costs? (Years 13 & 14 Fees)			No
Costs of Harvest and Processing	2.8%	\$	20,665
Restoration Costs	2.8%	\$	5,740

Inputs	Indexation Rate	Unit	Scheme 2012
Selling and Marketing Fee		%	5.00%
RE Cost Recoveries	2.8%	\$	301,940
Deferred fees		%	16.81%
Trust monies		\$	740,880
Market capacity		(t)	250
Excess market capacity		(t)	(124)

12.7 Outcome for Growers

- 12.7.1 As noted in the tables above, it appears that there is no return to Growers expected if the Scheme proceeds to a full Harvest given:
- The low yield anticipated for this project.
 - Differing from Schemes 2007 - 2010, the maximum market volume cap of c.250t is greater than the tonnes Harvested, nonetheless the Project is still forecasting a loss. In addition, for the reasons set out above in sections 1.3.2 I don't believe that the addressable market would be as high as 250t, and therefore the amount sold is likely to be less than modelled and hence the losses are likely to be greater.
 - Anticipated market saturation as a direct result of significant oversupply anticipated to be brought onto the market from corporate and institutional investors from 2024 as well as the cumulative unsold tonnage from previous Harvested Schemes (although the latter point has not been modelled).
 - Associated Costs of Harvest and Processing, Selling and Marketing Fee and other costs exceeding the likely Gross Proceeds from Sale.
- 12.7.2 In a winding up scenario, Growers are estimated to receive an aggregated return of \$740,880 which represents:
- No Harvest of the plantation area and subsequently no Net Proceeds of Sale available to distribute to Growers.
 - No obligation for Growers to pay further funds.
 - Distribution of the Trust Monies held by SPL to Growers.

- 12.7.3 Accordingly, it is my opinion that Scheme 2012 should proceed to be wound up as this provides for a better return to Growers than proceeding to a full Harvest based on the assumptions in this Report.
- 12.7.4 Important to note is that these results have been modelled on an addressable market, being the ability to sell 250t, however even if it was economic to Harvest, which the results have not indicated is the case, then the following factors would likely depress any surplus proceeds which would make the Scheme uneconomic to proceed to Harvest:
- (a) Oversupply of corporate and institutional Quintis Group production;
 - (b) Associated downward pressure on market demand due to potential oversupply; and
 - (c) Availability of buyers to participate in the Tender Process for the Scheme produce when having regard to alternate suppliers of Sandalwood.