6 June 2017

QUINTIS LTD
ABN 97 092 200 854

TRADING UPDATE

Quintis (ASX: QIN, "the Company") provides the following update on a number of corporate and operational matters:

1. Potential corporate transaction

The Company has received non-binding correspondence concerning potential equity and debt transactions from more than one interested party. The Company is advancing discussions with each party with the aim of formulating a transaction. As discussions are on-going and are non-binding the Company has today requested to remain in voluntary trading suspension.

2. Guidance update

Cash EBITDA

Cash EBITDA is the most widely used measure of Quintis' financial performance and has consistently been reported on by the Company since 2007. It removes the non-cash benefit derived from the revaluation of the Company's plantation assets, deferred lease and management fees, and unrealised foreign exchange movements.

On 28 August 2016, the Company issued guidance that Cash EBITDA for the year to 30 June 2017 would be up by at least 25% on the result for the year to 30 June 2016 ($62.2m). The Company's earnings are dependent on its sales of new plantations, the majority of which are typically finalised in the month of June, and as a consequence earnings are heavily weighted to the second half of each financial year. For example, in FY2016, the Cash EBITDA split was $8.6 million in the first half and $53.6 million in the second half.

Market conditions are currently volatile given the recent sharp decline in the Company's share price, suspension of trading in the Company's shares, the resignation of the Company's former Managing Director and the potential corporate transaction, which could include a change of control. In this environment, the Company is unable to accurately predict the outcome of the coming sales season and so the Company is withdrawing its Cash EBITDA guidance for the year to 30 June 2017.

Due to this uncertainty, Quintis has suspended its plantation sales program to MIS investors. Quintis' MIS plantation sales program has contributed less than 10% of Cash EBITDA in each of the last three years.

Further, Quintis' CEO is continuing the previously announced review of Quintis' operations and outlook. A number of issues are still being assessed including Quintis' future business model, sales and operational performance and governance and controls at its subsidiaries. Quintis will update the market as these matters are finalised.

Product sales

Product sales is revenue from the sale of processed wood and oil. To date, product sales have formed a modest part of the Company's results (FY2016: 16% of total sales revenue) due to the relatively small scale of the three harvests Quintis has completed to date. Product sales are expected to become a more significant factor for the business as larger plantations are harvested from 2021 onwards.

On 27 February 2017, the Company set out that it expected sales of sandalwood products in the range of $45m to $55m for the year ended 30 June 2017, with this guidance including expected sales of wood products to the Chinese market of approximately $20m in second half of the fiscal year. While contractual discussions with a new Chinese customer are well advanced, a contract has not yet been signed and so wood shipments have not yet recommenced. As a result, the Company now anticipates product sales in the range of $25m to $35m, with sales to China in the second half of the year ranging from $0m to $8m, depending on when shipments to the new Chinese customer commence.

The Company remains confident in its ability to export its wood and oil products globally at attractive prices. The breadth of the end markets for sandalwood album (Indian sandalwood) are unchanged and have been verified by several third-party experts, including most recently by McKinsey & Co. Quintis acknowledges the need to develop its sales and distribution capabilities in order to place future volumes and fully maximise its unique market position. The Company is expecting to recommence sales into China shortly, enabling Quintis to focus on developing what is forecast to be a large market for wood and oil. The Company expects this will be evident in solid FY18 sales figures, including the sale of any inventory unsold as at 30 June 2017.

2017 planting volumes

In light of current market conditions and the uncertainty over the level of plantation sales in 2017, the Company has reduced its new plantation establishments in 2017 to around 900 hectares (previously 1,400 hectares). Planting across the NT and Queensland commenced in April and is expected to be completed in July.

Quintis has also recently commenced its 2017 harvest. The harvest of approximately 107 hectares, mostly planted in 2002, is expect to produce a heartwood yield of approximately 240 tonnes by the time harvest is complete. Approximately 70% of the trees are owned by Quintis with the remainder owned by plantation investors.

3. Statement of financial position

Current cash balance

As at 31 May 2017, the Company's cash and cash equivalents were $17m. As noted in Item 1 above, the Company is in on-going discussions with a number of parties with the aim of finalising a recapitalisation of the business.

Plantation receivable
Included in Trade Receivables at 31 December 2016 was $27.5m due from an Asian investor relating to plantation establishment fees recorded in June 2015. This receivable was highlighted as having "credit risk" in the Company's financial statements for the year ended 30 June 2016 due to the age of the receivable at that time.

The Company now no longer expects this receivable to be settled in cash and the contract has been terminated by Quintis. As a result, ownership of the sandalwood plantation (of 357ha) will revert to Quintis. The Company intends to sell this high-quality plantation, located in the NT, to a different investor. The accounting for this termination is not expected to have an impact on FY17 Cash EBITDA.

Intangible asset: Galderma contract
Quintis provided an update to the market on the status of its contract to supply Indian sandalwood oil to Galderma on 10 May 2017.

The Company's financial report for the six months to 31 December 2016 included an intangible asset of $7.9m relating to the Galderma supply agreement. This balance resided within the Intangible Assets and Goodwill balance of $284.0m. The intangible asset of $7.9m would have been written off at 31 December 2016 had the cancellation of the Galderma contract (as announced to the market on 10 May 2017) been known to the current Board of Directors and current senior management when the half-year financial report was finalised on 24 February 2017.

Compared to the amounts reported in the Company's 31 December 2016 half-year report, this non-cash write-off would have reduced Group profit before income tax expense by $7.9m and Group net profit after tax and net assets by $5.1m. The adjustment is set out in Appendix One.

4. Financial results for the nine months ending 31 March 2017
Under the terms of its senior secured notes, the Company is required to provide quarterly financial statements to note holders within 60 days of the end of each of the Company's first three fiscal quarters. The Company has historically elected to release these results to the ASX platform at the same time.

The Company is currently assessing the impact of the developments highlighted in this Trading Update on its financial results and intends to update note holders and the market once the accounts have been finalised. The Company has discussed this delay with key stakeholders.

Non-provision of timely quarterly financial statements by the Company would only constitute an event of default under the indenture governing its senior secured notes if the trustee under the indenture (or a requisite number of note holders) notifies the Company of such default and the Company does not cure the default within 30 days (and assuming such default has not been waived by a majority of note holders). As at the date of this update, the Company is not in receipt of a default notification from the trustee.

5. Compliance with Listing Rules
The Company confirms it remains in compliance with the Listing Rules, including Listing Rule 3.1.

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APPENDIX 1: IMPACT OF GALDERMA TERMINATION AGREEMENT ON THE HALF-YEAR FINANCIAL REPORT OF QUINTIS LTD FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

This adjustment for the cancellation of the Galderma contract would have resulted in the amounts below being reported in the Statement of Profit or Loss for the half-year ended 31 December 2016 and Statement of Financial Position as at 31 December 2016:

	31 Dec 2016 **$'000**
Statement of Financial Position (Extract)	
Intangible assets and goodwill	276,113
Net assets	762,271
Statement of Profit or Loss (Extract)	
Profit before income tax expense	36,966
Income tax expense	(13,776)
Profit for the period	23,190

The above amounts reflect a reduction in the Group's after tax profit and net assets of $5.1m, and a reduction in the Group's profit before income tax expense of $7.9m, compared to the amounts reported in the 31 December 2016 half-year report.