

T.F.S. CORPORATION LTD
AND ITS CONTROLLED ENTITIES
A.B.N. 97 092 200 854

Un-audited Interim Financial Report
For the three months ended 30 September 2016

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)
UN-AUDITED INTERIM FINANCIAL REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Results for Announcement to Market | 1 |
| Directors' Report | 2-3 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 4 |
| Consolidated Statement of Financial Position | 5 |
| Consolidated Statement of Changes in Equity | 6 |
| Consolidated Statement of Cash Flows | 7 |
| Notes to the Interim Financial Statements | 8-18 |
| Directors' Declaration | 19 |

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)
RESULTS FOR ANNOUNCEMENT TO MARKET
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

| | Percentage change | | 30 SEP 2016 \$'000 | 30 SEP 2015 \$'000 | |
|---|----------------------|--------|-----------------------------------|-----------------------------------|----------------|
| Revenue | | | | | |
| Revenue (Cash*) | | | | | |
| Revenue from establishment fees and land sales | Down | 42.3% | to | 13,759 | 23,853 |
| Revenue from recurring fees | Down | 1.0% | to | 4,328 | 4,372 |
| Revenue from product sales | Down | 12.0% | to | 5,780 | 6,569 |
| Interest revenue | Down | 1.2% | to | 1,398 | 1,415 |
| Other revenue | Up | 88.7% | to | 4,549 | 2,411 |
| Revenue (Non-Cash*) | | | | | |
| Revenue from recognition of deferred fees | Down | 20.2% | to | 7,954 | 9,966 |
| Fair value gain / (loss) of biological assets | Down | 102.6% | to | (1,844) | 71,375 |
| Other revenue | Up | 100.0% | to | 149 | - |
| Total revenue and other income from ordinary activities | Down | 70.0% | to | <u>36,073</u> | <u>119,961</u> |
| EBITDA | | | | | |
| Cash EBITDA | Down | 90.1% | to | 566 | 5,732 |
| Non Cash EBITDA | Down | 88.9% | to | <u>8,647</u> | <u>77,595</u> |
| TOTAL EBITDA | Down | 88.9% | to | <u>9,213</u> | <u>83,327</u> |
| Net profit / (loss) after tax | | | | | |
| Net profit / (loss) after tax (Cash*) | Down | 436.1% | to | (12,877) | (2,402) |
| Net profit / (loss) after tax (Non Cash*) | Down | 90.4% | to | <u>5,712</u> | <u>59,469</u> |
| Net profit / (loss) from ordinary activities after tax | Down | 112.6% | to | <u>(7,165)</u> | <u>57,067</u> |

| | | | | 30 SEP 2016 Cents | 30 SEP 2015 Cents |
|--|------|--------|----|----------------------------------|----------------------------------|
| Earnings Per Share | | | | | |
| Basic EPS (Based on net profit / (loss) after tax) | Down | 110.8% | to | (1.85) | 17.04 |
| Diluted EPS (Based on net profit / (loss) after tax) | Down | 110.9% | to | <u>(1.80)</u> | <u>16.53</u> |

| | | | | 30 SEP 2016 Cents | 30 JUNE 2016 Cents |
|---|------|------|----|----------------------------------|-----------------------------------|
| Net Tangible Assets per Share | | | | | |
| Net tangible asset backing per ordinary share | Down | 3.8% | to | <u>123.38</u> | <u>128.29</u> |

***Definition of Cash / Non Cash**

The Group's Cash EBITDA / Cash NPAT is stated after eliminating / adjusting the following:

- Fair value gain / (loss) of biological assets;
- Revenue from recognition of deferred lease and management fees;
- Change in the fair value of land and buildings;
- Accounting treatment relating to the business combination transactions;
- Realised biological fair value gain / (loss) attributable to wood and oil products sold; and
- Unrealised foreign exchange gain / (loss).

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

DIRECTORS' REPORT

Your Directors present the un-audited financial report of T.F.S Corporation Ltd and its consolidated entities ("the Group") for the three months ended 30 September 2016.

DIRECTORS

The names of the Directors in office any time during or since the period end are:

Mr Dalton Gooding (Chairman)
Mr Frank Wilson (Managing Director)
Mr Julius Matthys (Deputy Chairman)
Mr John Groppoli
Ms Gillian Franklin
Mr Michael Kay

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

REVIEW OF OPERATIONS

Operating results

The Group's results reflect consistent seasonality due to the timing of revenue and receipts from plantation sales, which are typically weighted towards the fourth quarter of the year. The Group expects to derive significantly higher product sales revenue in the year to 30 June 2017 than in previous years, following the tenfold increase in harvest in 2016. The revenues from this harvest commenced in September and October 2016 with the first deliveries to the Group's customers in China and the essential oil market in the US.

The consolidated net loss after tax of the Group for the three-month period amounted to \$7.165m (30 September 2015: profit of \$57.067m) which was largely due to an unrealised foreign exchange loss on the Group's biological assets. The USD exchange rate moved from 1.429 AUD at 30 September 2015 to 1.309 AUD at this reporting date which generated a fair value loss of \$1.844m, compared to fair value gain of \$71.375m in the prior year.

Total revenues for the period of \$37.745m (30 September 2015: \$48.591m) included \$30.564m (30 September 2015: \$40.607m) relating to revenue from sales and services.

The Group's sales of financial products are heavily weighted towards the second half of the Group's financial year. Therefore, as in prior years, the results of the first three months of the financial year tend not to be representative of the full year's results. The Group expects to derive significant cash inflows from operating activities in the second half of the year and reaffirms its guidance for Cash EBITDA for the year to 30 June 2017 to be at least 25% up on Cash EBITDA in the year to 30 June 2016.

In July 2016, the Group issued new Senior Secured Notes of US\$250.000m, due in 2023 and used the proceeds to redeem the Group's original Notes, issued in 2011 and due in 2018. The new issuance extended the maturity of the Group's debt by 5 years and reduced the Group's cost of debt by 20%. The refinancing also resulted in an early call premium payment of \$10.648m.

EVENTS AFTER THE REPORTING PERIOD

The Group declared a final fully franked dividend in respect for the year ended 30 June 2016 of 3 cents per share and this was paid on 8 November 2016.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

Signed in accordance with a resolution of the Board of Directors.



Dalton Gooding
Chairman of the Board

Dated this 29th day of November 2016.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

| | NOTE | 30 SEP 2016 \$'000 | 30 SEP 2015 \$'000 |
|--|------|--------------------------|--------------------------|
| Revenue | 2 | 37,745 | 48,591 |
| Other income | 2 | (1,672) | 71,370 |
| Direct plantation and other operating expenses | | (11,083) | (14,516) |
| Raw materials and consumables used | | (4,009) | (2,799) |
| Salaries and employees benefits expense | | (9,570) | (6,677) |
| Corporate sales and administration expenses | | (5,226) | (8,612) |
| Depreciation and amortisation expenses | | (3,082) | (2,298) |
| Finance costs | | (4,990) | (7,482) |
| Early call premium of 11% Senior Secured Note | | (10,648) | - |
| Unrealised foreign exchange gain/(loss) | | 3,914 | (20,923) |
| Fair value loss on contingent consideration liability | | (628) | - |
| Fair value gain on biological assets – external MIS growers | | (1,026) | 19,363 |
| Fair value loss on external MIS grower liabilities | | 1,026 | (19,363) |
| Gain on acquisition of controlling interests | | - | 17,177 |
| Profit / (loss) before income tax expense | | (9,249) | 73,831 |
| Income tax (expense) / benefit | | 2,084 | (16,764) |
| Profit / (loss) for the period | | (7,165) | 57,067 |
| Other comprehensive income | | | |
| <i>Other comprehensive income to be reclassified to profit and loss in subsequent periods:</i> | | | |
| Foreign currency translation differences for foreign operations | | (54) | 374 |
| <i>Other comprehensive income not to be reclassified to profit and loss in subsequent periods:</i> | | | |
| Revaluation of land and buildings (net of tax) | | - | 247 |
| Total comprehensive income for the period | | (7,219) | 57,688 |
| Earnings per share | | | |
| Basic earnings / (loss) per share [cents per share] | 11 | (1.85) | 17.04 |
| Diluted earnings / (loss) per share [cents per share] | 11 | (1.80) | 16.53 |

The accompanying Notes form part of these financial statements.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016

| | NOTE | 30 SEP 2016 \$'000 | 30 JUN 2016 \$'000 |
|--------------------------------------|------|--------------------------|--------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 106,600 | 106,993 |
| Trade and other receivables | 3 | 76,397 | 85,097 |
| Inventories | 4 | 45,170 | 24,985 |
| Biological assets | 5 | - | 28,247 |
| Other financial assets | | 3,395 | 2,904 |
| TOTAL CURRENT ASSETS | | <u>231,562</u> | <u>248,226</u> |
| NON CURRENT ASSETS | | | |
| Trade and other receivables | 3 | 53,579 | 54,554 |
| Property, plant and equipment | | 164,992 | 161,713 |
| Biological assets | 5 | 769,646 | 742,961 |
| Other financial assets | 6 | 10,256 | 7,872 |
| Intangible assets and goodwill | 7 | 272,938 | 265,218 |
| Other assets | | 11,667 | 11,414 |
| TOTAL NON CURRENT ASSETS | | <u>1,283,078</u> | <u>1,243,732</u> |
| TOTAL ASSETS | | <u>1,514,640</u> | <u>1,491,958</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 31,288 | 49,353 |
| Financial liabilities | 8 | 9,823 | 14,048 |
| Current tax liabilities | | 4,582 | 7,333 |
| Provisions | | 2,422 | 2,322 |
| Unearned income | | 8,064 | 22,347 |
| TOTAL CURRENT LIABILITIES | | <u>56,179</u> | <u>95,403</u> |
| NON CURRENT LIABILITIES | | | |
| Provisions | | 3,455 | 3,291 |
| Financial liabilities | 8 | 513,521 | 442,105 |
| Deferred tax liabilities | | 196,534 | 198,994 |
| Unearned income | | 4,763 | 4,943 |
| TOTAL NON CURRENT LIABILITIES | | <u>718,273</u> | <u>649,333</u> |
| TOTAL LIABILITIES | | <u>774,452</u> | <u>744,736</u> |
| NET ASSETS | | <u>740,188</u> | <u>747,222</u> |
| EQUITY | | | |
| Issued capital | 9 | 280,827 | 280,827 |
| Asset revaluation reserve | | 6,990 | 6,990 |
| Foreign currency translation reserve | | 2,245 | 2,300 |
| Option/Warrant reserve | | 10,264 | 10,078 |
| Retained earnings | | 439,862 | 447,027 |
| TOTAL EQUITY | | <u>740,188</u> | <u>747,222</u> |

The accompanying Notes form part of these financial statements.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

| | Issued Capital \$'000 | Reserves \$'000 | Retained Earnings \$'000 | Total \$'000 |
|--|-----------------------------|--------------------|--------------------------------|-----------------|
| Balance at 1 July 2016 | 280,827 | 19,368 | 447,027 | 747,222 |
| Profit for the period | - | - | (7,165) | (7,165) |
| Other comprehensive income | - | (54) | - | (54) |
| Total comprehensive income for the period | - | (54) | (7,165) | (7,219) |
| Transaction with owners, in their capacity as owners, and other transfers | | | | |
| Share based payments | - | 185 | - | 185 |
| Balance at 30 September 2016 | 280,827 | 19,499 | 439,862 | 740,188 |
| Balance at 1 July 2015 | | | | |
| | 188,948 | 18,450 | 367,125 | 574,523 |
| Profit for the period | - | - | 57,067 | 40,544 |
| Other Comprehensive Income | - | 621 | - | 621 |
| Total comprehensive income for the period | - | 621 | 57,067 | 41,165 |
| Transaction with owners, in their capacity as owners, and other transfers | | | | |
| Proceeds from the issue of shares | 23,462 | - | - | 23,462 |
| Share based payment | - | 60 | - | 60 |
| Balance at 30 September 2015 | 212,410 | 19,131 | 424,192 | 655,733 |

The accompanying Notes form part of these financial statements.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

| | 30 SEP 2016 \$'000 | 30 SEP 2015 \$'000 |
|---|-----------------------------------|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipt from operations | 17,858 | 15,796 |
| Payments to suppliers and employees | (43,802) | (33,067) |
| Payments for land held for resale | (118) | (5,575) |
| Repayment of grower loans | 4,273 | 4,882 |
| Proceeds from sale of loan book | 8,639 | - |
| Interest received | 1,398 | 1,415 |
| Finance charges | (15,836) | (12,197) |
| Income tax paid | (3,126) | (751) |
| Net cash (used in) / provided by operating activities | (30,714) | (29,497) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from the sale of property, plant and equipment | 78 | 12 |
| Payments for plant and equipment | (5,901) | (6,357) |
| Acquisition of biological assets and investment in own plantation | (11,281) | (565) |
| Payments for land development | (514) | - |
| Payments for investments | - | (5,764) |
| Other | (40) | (132) |
| Net cash (used in) / provided by investing activities | (17,658) | (12,806) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of borrowings | (266,190) | (4) |
| Payment of early call premium of 11% Senior Secured Note | (10,648) | - |
| Net proceeds from borrowings | 324,818 | - |
| Dividends paid | (1) | (2) |
| Net cash (used in) / provided by financing activities | 47,979 | (6) |
| Net decrease in cash held | (393) | (42,309) |
| Cash at the beginning of the period | 106,993 | 72,674 |
| Cash at the end of the period | 106,600 | 30,365 |

The accompanying Notes form part of these financial statements.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The un-audited interim financial report covers T.F.S. Corporation Ltd and its controlled entities (hereafter referred to as “the Group” or “TFS”). T.F.S. Corporation Ltd is a for-profit listed public company, incorporated and domiciled in Australia.

The financial report was authorised for issue on 29 November 2016 by the Board of Directors.

Basis of Preparation

These general purpose financial statements for the three-month period ended 30 September 2016 have been prepared in accordance with AASB 134: *Interim Financial Reporting*.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Group. As such, it does not contain information that represents relatively insignificant changes occurring during the period within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2016, together with any public announcements made during the period.

The interim financial report has been prepared on an accruals basis and is based on historical costs, except for the Group’s Indian Sandalwood tree plantations (which are biological assets), external MIS grower liabilities, contingent consideration and land which have been measured at fair value. This report does not take into account changing money values or, except where stated, current valuations of non-current assets.

The Directors make estimates, judgements and assumptions based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group’s last annual financial statements for the year ended 30 June 2016, as set out in Note 1(z).

The interim financial statements are presented in Australian dollars and all values are rounded to the nearest (\$’000) unless otherwise stated.

Accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2016.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Seasonality of Business

The plantation management segment is a provider of plantation establishment and management services for Indian Sandalwood plantations. Due to the seasonal nature of this segment, higher revenues and operating profits are usually expected in the second half of the financial year. Higher sales during the period May to June are mainly attributed to recognition of revenue in relation to the establishment of new plantations during the dry season in Northern Australia. The receipt of funds is also higher during May and June each year with the settlement of new plantation sales. This information is provided to allow for a proper appreciation of the results.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

**NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016**

| | 30 SEP 2016 \$'000 | 30 SEP 2015 \$'000 |
|--|-----------------------------------|-----------------------------------|
| NOTE 2: REVENUE AND OTHER INCOME | | |
| Sales revenue: | | |
| Revenue from sales and services | 30,564 | 40,607 |
| Revenue from product sales | 5,780 | 6,569 |
| Interest on grower loans | 1,141 | 1,130 |
| Interest received | 260 | 285 |
| Total sales revenue | <u>37,745</u> | <u>48,591</u> |
| Other income: | | |
| Profit / (loss) on disposal of plant and equipment | 23 | (5) |
| Gain on settlement of trade debtor | 149 | - |
| Fair value gain of biological assets – T.F.S. interest | (1,844) | 71,375 |
| Total other income | <u>(1,672)</u> | <u>71,370</u> |
| Total revenue and other income | <u>36,073</u> | <u>119,961</u> |
| | 30 SEP 2016 \$'000 | 30 JUN 2016 \$'000 |
| NOTE 3: TRADE AND OTHER RECEIVABLES | | |
| Current | | |
| Trade debtors | 62,077 | 64,617 |
| Allowances for impairment of receivables | (332) | (332) |
| | <u>61,745</u> | <u>64,285</u> |
| Loans to growers | 11,998 | 15,706 |
| Bonds and deposits | 329 | 326 |
| Prepayments | 2,325 | 4,780 |
| | <u>76,397</u> | <u>85,097</u> |
| Non Current | | |
| Loans to growers | 53,398 | 54,373 |
| Other receivables | 181 | 181 |
| | <u>53,579</u> | <u>54,554</u> |
| | 30 SEP 2016 \$'000 | 30 JUN 2016 \$'000 |
| NOTE 4: INVENTORIES | | |
| At Cost: | | |
| Land held for resale | 2,806 | 2,688 |
| Finished goods | 19,363 | 11,297 |
| Seedlings at cost | 411 | 251 |
| Seed stock | 587 | 391 |
| Harvested trees | 19,687 | 8,270 |
| Raw materials | 2,476 | 2,248 |
| Less: Provision for obsolete stock | (160) | (160) |
| | <u>45,170</u> | <u>24,985</u> |

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

**NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016**

NOTE 5: BIOLOGICAL ASSETS

| | 30 SEP 2016 No. | 30 JUN 2016 No. |
|---|--------------------------------|--------------------------------|
| Physical quantity of Indian Sandalwood trees - T.F.S. interest | 1,063,841 | 1,146,656 |
| Physical quantity of Indian Sandalwood trees – External MIS grower interest | 274,134 | 270,963 |

Fair Value

The Group's biological assets relate to Indian Sandalwood trees growing on plantations located across the north of Australia. The fair value less costs to sell of the Indian Sandalwood trees has been determined in accordance with a Directors' valuation.

The fair value measurements for biological assets of \$769.646m, (June 2016: \$771.208m) have been categorised as Level 3 in the fair value hierarchy.

| | 30 SEP 2016 \$'000 | 30 JUN 2016 \$'000 |
|--|-----------------------------------|-----------------------------------|
| NOTE 6: OTHER FINANCIAL ASSETS | | |
| Non Current | | |
| Cash deposit – First loss account | 1,688 | 1,688 |
| Cash deposit – Bank guarantee facility | 3,491 | 3,491 |
| Cash deposit – MIS custodian accounts | 2,684 | 2,673 |
| Cash deposit – Loan book facility | 2,373 | - |
| Other | 20 | 20 |
| | 10,256 | 7,872 |

The MIS custodian accounts consist of 50% of establishment fees on new MIS sales and one year's annual and rent fees paid upfront by growers ("upfront annual and rent fees"). These fees are kept in an interest bearing account, which is maintained by an independent custodian. The establishment fees are released quarterly to the Group until completion of the establishment services. The upfront annual and rent fees will be applied in satisfaction of the annual fee and rent in year 14 of the applicable project. Prior to lease and management services being provided, an offsetting amount is recognised as unearned income.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

**NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016**

| | 30 SEP 2016 \$'000 | 30 JUN 2016 \$'000 |
|---|-----------------------------------|-----------------------------------|
| NOTE 7: INTANGIBLE ASSETS AND GOODWILL (NON CURRENT) | | |
| <i>Intangible assets</i> | | |
| Supply agreements – at cost | 478 | 478 |
| <i>Goodwill – at cost</i> | | |
| Opening balance | 32,291 | 20,205 |
| Acquisition of a subsidiary | - | 12,086 |
| Closing balance | 32,291 | 32,291 |
| <i>Deferred lease and management fees – at cost</i> | | |
| Opening balance | 109,507 | 93,696 |
| Recognition of deferred fees | 10,216 | 21,970 |
| Deferred fees realised upon tree buy back scheme | (110) | (2,038) |
| Deferred fees realised upon harvest | - | (422) |
| Impairment reversal / (allowance) | (2,152) | (3,699) |
| Closing balance | 117,461 | 109,507 |
| <i>In-process research and development – at cost</i> | | |
| Opening balance | 122,942 | - |
| Acquisition of controlled entities | - | 124,019 |
| Amortisation | (234) | (1,077) |
| Closing balance | 122,708 | 122,942 |
| Total Goodwill and Intangibles | 272,938 | 265,218 |

The current amortisation charges for intangible assets with finite useful lives are included under depreciation and amortisation expense as per the statement for profit or loss and other comprehensive income.

| | 30 SEP 2016 \$'000 | 30 JUN 2016 \$'000 |
|--------------------------------------|-----------------------------------|-----------------------------------|
| NOTE 8: FINANCIAL LIABILITIES | | |
| Current | | |
| External MIS grower liabilities | - | 6,240 |
| Recourse loan ⁽ⁱ⁾ | 1,884 | - |
| Contingent consideration | 7,939 | 7,808 |
| | 9,823 | 14,048 |
| Non Current | | |
| Senior secured notes ⁽ⁱⁱ⁾ | 319,594 | 272,505 |
| External MIS grower liabilities | 156,030 | 141,811 |
| Recourse loan ⁽ⁱ⁾ | 9,611 | - |
| Contingent consideration | 28,286 | 27,789 |
| | 513,521 | 442,105 |

⁽ⁱ⁾ The liability arises from a part sale of the loan book signed on 29 June 2016. The sale contributed approximately \$8.9m in cash during the three months ended to 30 September 2016. The acquirer of the loan book has full recourse to TFS and as a result the liability has been recognised. The liability will continue to reduce as payments are collected from the growers. The corresponding asset is continued to be recorded as a receivable as a loan to growers in Note 3.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

**NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016**

NOTE 8: FINANCIAL LIABILITIES

⁽ⁱⁱ⁾ A total of US\$250 million has been raised from international debt markets from the issuance of 8.75% senior secured notes, with a maturity date of 1 August 2023. This liability has been converted to Australian dollars using an exchange rate of 1.309 (30 June 2016: 1.347). All principle in US dollars is payable at maturity date with interest to be paid semi-annually, in arrears on 1 February and 1 August of every year. On or after 1 August 2019 the Group may redeem some or all of the notes at a premium that will decrease over time as set out below:

| | |
|-------------------------------------|----------|
| 1 August 2019 to 31 July 2020 | 106.563% |
| 1 August 2020 to 31 July 2021 | 104.375% |
| 1 August 2021 to 31 July 2022 | 102.188% |
| 1 August 2022 | 100.000% |

The notes are represented by one or more global notes and are listed on the Singapore Stock Exchange (SGX-ST) for trading.

The notes are secured by a fixed and floating charge over all the assets of the Group.

| 30 SEP 2016 \$'000 | 30 JUN 2016 \$'000 |
|-----------------------------------|-----------------------------------|
| 280,827 | 280,827 |

NOTE 9: ISSUED CAPITAL

388,090,145 fully paid ordinary shares (30 June 2016: 388,090,145)

Capital management

Management controls the capital of the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital included ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the end of the prior financial year. The gearing ratios for the current period and past year end are as follows:

| | 30 SEP 2016 \$'000 | 30 JUN 2016 \$'000 |
|---------------------------------|-----------------------------------|-----------------------------------|
| Total borrowings | 319,594 | 272,505 |
| Less: Cash and cash equivalents | (106,600) | (106,993) |
| Net debt | 212,994 | 165,512 |
| Total equity | 740,189 | 747,222 |
| Total capital | 953,183 | 912,734 |
| Gearing ratio | 22.35% | 18.13% |

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016

NOTE 10: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

**NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016**

NOTE 10: SEGMENT INFORMATION

The Group's operations involve the management and operation of forestry plantations, cultivation and sale of agriculture produce, the provision of finance, and the production and sale of Sandalwood oil and related products, including pharmaceutical products. All material operations are conducted in Australia and in USA.

Primary reporting in business segments

| Operating segments | Plantation management | | Finance | | Sandalwood products | | Pharmaceutical | | Group | |
|---|-----------------------|---------|---------|--------|---------------------|--------|----------------|--------|---------|----------|
| | 30 SEP | 30 SEP | 30 SEP | 30 SEP | 30 SEP | 30 SEP | 30 SEP | 30 SEP | 30 SEP | 30 SEP |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue | | | | | | | | | | |
| Establishment fees | 13,759 | 23,853 | - | - | - | - | - | - | 13,759 | 23,853 |
| Lease and management fees | 4,328 | 4,371 | - | - | - | - | - | - | 4,328 | 4,371 |
| Product sales | - | - | - | - | 5,780 | 6,569 | - | - | 5,780 | 6,569 |
| Interest – external | 251 | 273 | 1,145 | 1,142 | 1 | - | - | - | 1,397 | 1,415 |
| Other – external | 4,415 | 2,354 | 162 | 22 | - | 35 | 122 | - | 4,699 | 2,411 |
| Other – internal | 8,845 | 277 | - | - | 128 | 149 | - | - | 8,973 | 426 |
| | | | | | | | | | | |
| Accrued income recognition | 7,954 | 9,967 | - | - | - | - | - | - | 7,954 | 9,967 |
| Gain on fair value of plantation – T.F.S. interest | (1,844) | 71,375 | - | - | - | - | - | - | (1,844) | 71,375 |
| | | | | | | | | | | |
| Total segment revenue | 37,708 | 112,470 | 1,307 | 1,164 | 5,909 | 6,753 | 122 | - | 45,046 | 120,387 |
| | | | | | | | | | | |
| <i>Reconciliation of segment revenue to group revenue</i> | | | | | | | | | | |
| Other income (refer to Note 2) | | | | | | | | | 1,672 | (71,370) |
| Inter segment revenue | | | | | | | | | (8,973) | (426) |
| Total group revenue from ordinary activities | | | | | | | | | 37,745 | 48,591 |

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

**NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016**

NOTE 10: SEGMENT INFORMATION

Operating segments

| | Plantation management | | Finance | | Sandalwood products | | Pharmaceutical | | Group | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 30 SEP 2016 \$'000 | 30 SEP 2015 \$'000 |

Result

Earnings before interest, tax,
depreciation and amortisation
(EBITDA)

| | | | | | | | | | | |
|--|--------|--------|-------|-------|-----|-------|----------|--------|--------|--------|
| | 17,877 | 60,889 | 1,240 | 1,143 | 596 | 4,843 | (1,527) | (299) | 18,186 | 66,576 |
|--|--------|--------|-------|-------|-----|-------|----------|--------|--------|--------|

Reconciliation of segment EBITDA to group EBITDA

Inter segment profit

(8,973) (426)

Unallocated gain – Acquisition of controlling interest

- 17,177

Total group EBITDA

(9,213) 83,327

Segment result before income tax

| | | | | | | | | | | |
|--|--------|--------|-------|-------|-----|-------|----------|--------|--------|--------|
| | (408) | 68,735 | 1,248 | 1,154 | 416 | 4,670 | (1,531) | (302) | (275) | 74,257 |
|--|--------|--------|-------|-------|-----|-------|----------|--------|--------|--------|

Reconciliation of segment result to group net profit before tax

Inter segment profit

(8,973) (426)

Amounts not included in segment results

Net profit before tax from continued operations

(9,249) 73,831

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

**NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016**

NOTE 10: SEGMENT INFORMATION

Operating segments

| | Plantation management | | Finance | | Sandalwood products | | Pharmaceutical | | Group | |
|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 30 SEP 2016 \$'000 | 30 JUN 2016 \$'000 |
| Segment Assets | 1,199,024 | 1,199,345 | 73,465 | 72,947 | 49,354 | 46,759 | 139,124 | 137,324 | 1,460,967 | 1,456,375 |
| Segment increases for the period: | | | | | | | | | | |
| Capital expenditure | 3,221 | 22,258 | - | - | - | - | - | - | 3,221 | 22,258 |
| Acquisitions | 2,590 | 7,211 | - | - | 213 | 1,325 | - | - | 2,803 | 8,536 |
| | 5,811 | 29,469 | - | - | 213 | 1,325 | - | - | 6,024 | 30,794 |

Reconciliation of segment assets to group assets

| | | | | | | | | | | |
|---|--|--|--|--|--|--|--|--|------------|------------|
| External MIS grower interest in biological assets | | | | | | | | | 156,030 | 148,051 |
| Inter segment receivables eliminated on consolidation | | | | | | | | | (102,357) | (112,468) |
| Total group assets from continuing operations | | | | | | | | | 1,514,640 | 1,491,958 |

Segment Liabilities

| | | | | | | | | | | |
|---------------------|---------|---------|--------|--------|-------|-------|--------|--------|---------|---------|
| Segment Liabilities | 549,845 | 542,965 | 58,044 | 58,774 | 4,652 | 2,476 | 70,997 | 67,698 | 683,538 | 671,913 |
|---------------------|---------|---------|--------|--------|-------|-------|--------|--------|---------|---------|

Reconciliation of segment liabilities to group liabilities

| | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|-----------|-----------|
| External MIS grower liabilities | | | | | | | | | 156,030 | 148,051 |
| Inter segment eliminations | | | | | | | | | (65,116) | (75,228) |
| Total group liabilities from continuing operations | | | | | | | | | 774,452 | 744,736 |

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

**NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2016**

| | 30 SEP 2016 \$'000 | 30 SEP 2015 \$'000 |
|--|-----------------------------------|-----------------------------------|
| NOTE 11: EARNINGS PER SHARE | | |
| Earnings / (loss) used in calculating basic and diluted earnings per share | (7,165) | 57,067 |

| | 30 SEP 2016 | 30 SEP 2015 |
|--|---------------------------------|------------------------|
| | Number of Shares (thousands) | |
| | <hr/> | <hr/> |
| Weighted average number of ordinary shares for basic EPS ⁽ⁱ⁾ | 388,090 | 334,837 |
| Effect of dilution from warrants | 9,376 | 10,327 |
| Weighted average number of ordinary shares adjusted for effects of dilution ^{(ii), (iii)} | 397,466 | 345,164 |

- (i) The weighted average number of ordinary shares takes into account the 916,255 shares to be issued at a future date relating to the acquisition of Santalis.
- (ii) Excludes contingently issuable shares relating to the acquisition of Santalis and ViroXis.
- (iii) The 30 September 2016 diluted EPS has been restated for the effect of dilution from warrants.
- (iv) The weighted average number of shares for EPS and Diluted EPS in respect of all periods presented has been adjusted by a conversion factor of 1.00 relating to the bonus element of the placements.

NOTE 12: SUBSEQUENT EVENTS

The Group declared a final fully franked dividend in respect for the year ended 30 June 2016 of 3 cents per share and this was paid on 8 November 2016.

NOTE 13: CONTINGENT LIABILITIES

- (i) A controlled entity is managing a portfolio of MIS grower loans on behalf of the Commonwealth Bank of Australia (CBA) and under the agreement the entity has a legal liability to indemnify the CBA for any defaulting grower loans. This legal liability is limited to \$1.688m, being the amount of cash available in the First Loss Account. The portfolio of loans consists of existing loans sold to the CBA in 2008 and direct grower funding for the TFS 2008 and TFS 2009 projects. Once indemnified the Group takes the loan back onto its balance sheet with the established Sandalwood trees acting as security over the receivable.
- (ii) Included in the sales to sophisticated investors during June 2014 are put options whereby the investor can elect to sell the trees back to the Group at the lower of market value or a predetermined price. These put options are eligible to be exercised in September 2018, and if exercised the Group would be required to pay the consideration in November 2018 and November 2019. If all the options were exercised the Group would be required to acquire the plantations from the sophisticated investors at the lower of a predetermined price of \$51.321m or market value. The Group has deemed the likelihood of the put options being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.
- (iii) Included in the sales to an institutional investor during June 2014 is a put option whereby the investor can elect to sell the trees back to the Group at a predetermined price, exercisable by 30 April 2017. If exercised the Group would be required to pay the consideration in September 2017. If the options were exercised the Group would be required to acquire the plantations from the institutional investor for \$33.924m. The Group has deemed the likelihood of the put option being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.

NOTE 14: FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group's financial instruments consist of trade and other receivables, other financial assets (made up of cash deposits), trade and other payables and financial liabilities. These financial instruments are measured at amortised cost, less any provision for non recovery. The carrying amount of the financial assets and liabilities approximate their fair value.

T.F.S. CORPORATION LTD
(ABN: 97 092 200 854)

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The un-audited financial statements and notes give a true and fair view of the Group's financial position as at 30 September 2016 and the performance for the three months ended on that date in accordance with Australian Accounting Standards.
2. In the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Dalton Gooding
Chairman of the Board

Dated at Perth this 29th day of November 2016.