

QUINTIS LTD
(FORMERLY TFS CORPORATION LTD)
ABN 97 092 200 854

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

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CORPORATE INFORMATION

ABN 97 092 200 854

Directors

Mr Dalton Gooding (Non-Executive Chairman)
Mr Julius Matthys (Chief Executive Officer)
Mr Giovanni Groppoli
Mr Michael Kay

Company Secretary

Mr Simon Storm
Mr Quentin Megson

Registered office and principal place of business

The Old Swan Brewery
Level 2, 171-173 Mounts Bay Road
Perth WA 6000
Australia
Phone: (08) 9215 3000

Share register

Link Market Services Limited
Level 12, QV1 Building,
250 St Georges Terrace
Perth WA 6000
Australia
Phone: +61 8 9211 6670

Quintis Ltd shares are listed on the Australian Securities Exchange (ASX)

Auditors

Ernst & Young
11 Mounts Bay Road
Perth WA 6000
Australia

DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2017.

The names and details of the Company's Directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Dalton Gooding

Non-Executive Chairman

Qualifications:

BBus, FCA

Experience:

Mr. Gooding was formerly a long standing partner at Ernst & Young and is a Fellow of the Institute of Chartered Accountants in Australia. He has over 40 years experience and is currently the Senior Partner of Gooding Partners where he advises a wide range of businesses with an emphasis on taxation and accounting issues, due diligence, feasibilities and general business advice.

Interest in shares and performance rights at the date of this report:

212,072 ordinary shares in Quintis Ltd (0.05% of the Company).

Interests in Quintis Projects:

3.6 Ha (2016: 3.6 Ha) of interests held in Quintis Indian Sandalwood projects.

Special responsibilities:

Audit Committee, Risk Management Committee and Remuneration Committee (Chairman)

Directorships held in other listed entities in the last 3 years:

Brierty Ltd (appointed 26 October 2007)
Katana Capital Ltd (appointed 11 November 2005)
SIPA Resources Ltd (resigned 31 March 2016)

Julius Matthys

Director and Chief Executive Officer (appointed as CEO on 3 April 2017).

Qualifications:

BCom

Experience:

Mr. Matthys was appointed to the Board on 23 December 2011 and was Vice President of Corporate Affairs for BHP Billiton Group in Western Australia until 30 June 2016. He has led senior roles in Iron Ore and Aluminium marketing with responsibility for global sales and customer relationships. From 2008 to 2011 he managed the Worlsey 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.

Interest in shares and performance rights at the date of this report:

3,348,118 ordinary shares in Quintis Ltd (0.86% of the Company).

Interests in Quintis Projects:

1.3 ha (2016: 1.3 ha) of interests held in Quintis Indian Sandalwood projects.

Special responsibilities:

Audit Committee (until his appointment as CEO on 3 April 2017)

Directorships held in other listed entities in the last 3 years:

Doray Minerals Ltd - Non-Executive Chairman (appointed 1 February 2017)

DIRECTORS' REPORT

Giovanni (John) Groppoli

Non-Executive Director

Qualifications:

LLB, BJuris, FAICD

Experience:

Mr Groppoli was appointed to the Board on 10 October 2014 and is an experienced lawyer. Mr Groppoli was a partner of a national law firm Deacons (now Norton Rose Fullbright) from 1987 to 2004 where he specialised in franchising, mergers and acquisitions, and corporation governance. Mr Groppoli left private practice in 2004 and is currently Managing Director of RGM Equity whose business operations consist of the marketing and distribution of premium international homewares and optical products and accessories.

Mr Groppoli has been a Non-Executive Director of Automotive Holdings Group since July 2006 and is the Chairman of their Remuneration and Nomination Committees.

Interest in shares and performance rights at the date of this report:

Nil

Interests in Quintis Projects:

Nil

Special responsibilities:

Audit Committee (Chairman), Remuneration Committee and Risk Management Committee

Directorships held in other listed entities in the last 3 years:

Automotive Holdings Group Limited (appointed 4 July 2006)

DIRECTORS' REPORT

Michael Kay

Non-Executive Director

Qualifications:

LLB

Experience:

Most recently, Mr Kay was Chief Executive Officer and Managing Director of listed salary packaging company, McMillan Shakespeare Ltd, a position he held for six years. Previously Mr Kay had been CEO of the national insurer, AAMI, after serving in a variety of senior roles with that company. Prior to joining AAMI, Mr Kay spent 12 years in private legal practice. Mr Kay is a Director of Royal Automobile Club Insurance (WA), IMF Benthams Limited (Non-Executive Chairman), Lovisa Holdings Limited (Non-Executive Chairman) and Apply Direct Limited (Non-Executive Chairman).

Interest in shares and performance rights at the date of this report:

228,474 ordinary shares in Quintis Ltd (0.04% of the Company).

Interests in Quintis Projects:

Nil

Special responsibilities:

Audit Committee, Remuneration Committee and Risk Management Committee (Chairman)

Directorships held in other listed entities in the last 3 years:

IMF Benthams Limited – Non-Executive Chairman (appointed 1 July 2015)
Apply Direct Ltd – Non-Executive Chairman (appointed 6 March 2015)
Lovisa Holdings Limited – Non Executive Chairman (appointed 13 April 2016)
McMillan Shakespeare Ltd (resigned 30 September 2014)

Frank Wilson

Managing Director (resigned on 27 March 2017)

Qualifications:

LLB

Experience:

Mr. Wilson was the founding Chairman of the Quintis Group having been appointed on 28 March 2000. In December 2006 he was appointed to the role of Executive Chairman, a role which he held until 10 November 2011 when he resigned from the Board. On 12 June 2012, he was re-appointed to the Board in the role of Executive Director followed by the appointment as Executive Chairman on 3 October 2012. The Chairman's role was relinquished on the appointment of a Non-executive Chairman on 17 November 2013.

He was previously the Managing Partner of the legal firm Wilson & Atkinson, which at the time specialised in taxation, property and commercial law. Mr. Wilson is an experienced businessman, who has a long-standing involvement in the forestry industry. He is also a governor of the University of Notre Dame.

Interests in Quintis Projects:

413.5Ha (2016: 413.5Ha) of interests held in Quintis Indian Sandalwood projects.

Special responsibilities:

Nil

Directorships held in other listed entities in the last 3 years:

None

DIRECTORS' REPORT

Gillian Franklin

Non-Executive Director (resigned on 30 June 2017)

Qualifications:

Corporate Directors' Diploma

Experience:

Ms Franklin has extensive commercial experience and is Managing Director and founder of The Heat Group, an Australian distributor of leading cosmetic brands. Over the past 15 years, Ms Franklin has expanded The Heat Group into the largest Australian-owned cosmetics company, distributing international brands such as Max Factor and COVERGIRL as well as an expanding portfolio of its own brands. Ms Franklin has previously held Managing Director and General Management positions for some of Australia's leading consumer companies, including Creative Brands (owners of Australis and Le Tan) and Revlon.

She is also on the Board of the Cosmetic, Toiletry and Fragrance Association of Australia (CTFA), ACCORD, the Australian Formula 1 Grand Prix and is a member of their Audit and Risk Committee, and MTC (Melbourne Theatre Company). She brings a compelling track record and substantial experience in general management, sales and marketing in the cosmetics, fine fragrance and pharmaceutical industries, key markets for Indian Sandalwood oil.

Interests in Quintis Projects:

Nil

Special responsibilities

Remuneration Committee and Risk Management Committee

Directorships held in other listed entities in the last 3 years:

None

Company Secretary

The following persons held the position of Company Secretary at the end of the financial year:

Mr Simon Storm

Mr Storm joined the Quintis Group in January 2013 as Company Secretary. He is a Chartered Accountant with over 25 years of Australian and international experience in the accounting profession and commerce. He has held various senior finance and/or company secretarial roles with listed and unlisted entities in the banking, resources, construction, telecommunications, funds management and property development industries. In the last 15 years he has provided consulting services covering accounting, financial and company secretarial matters to various companies in these sectors.

Mr Quentin Megson

Mr Megson joined the Quintis Group in January 2005 as Chief Financial Officer. Prior to that he was a partner in the tax and business services division of the chartered accounting firm - Pitcher Partners. He has been a Chartered Accountant for over 20 years.

DIRECTORS' REPORT

Directors' Meetings

During the financial year, the following meetings were held. Attendances by each Director were as follows:

			Meeting of Committees					
	Directors' Meeting		Audit		Remuneration		Risk management	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Dalton Gooding	28	28	4	4	1	1	-	-
Frank Wilson (i)	8	8	-	-	-	-	-	-
Julius Matthys	28	26	3	3	1	1	-	-
Giovanni Groppoli	28	26	4	4	2	2	2	2
Gillian Franklin	28	28	-	-	2	1	2	2
Michael Kay	28	27	1	1	-	-	2	2

(i) Up to the date of resignation, being 27 March 2017.

Committee membership

As at the date of this report, the company had an Audit, a Remuneration and a Risk Management Committee.

Members active on the Committees of the Board during the year were:

Audit	Remuneration	Risk Management
Giovanni Groppoli (a)	Dalton Gooding (a)	Micheal Kay (a)
Dalton Gooding	Giovanni Groppoli	Giovanni Groppoli
Julius Matthys (b)	Julius Matthys (b)	Julius Matthys (b)
Michael Kay	Michael Kay	Dalton Gooding
	Gillian Franklin (c)	Gillian Franklin (c)

(a) Designates the chair of the Committee

(b) Up to date of appointment as CEO, being 3 April 2017

(c) Up to date of resignation, being 30 June 2017

Principal activities

The principal activities during the year of Quintis Ltd ("Quintis" or "the Company") and its controlled entities ("the Group") were:

- promotion of Sandalwood plantation investment to institutional investors;
- promotion of Sandalwood investment to sophisticated investors ("SIO");
- processing and sale of harvested Indian Sandalwood logs;
- manufacture and distribution of Indian and Australian Sandalwood oil and related products;
- research and development of botanical pharmaceuticals and bio-pharmaceutical products for commercialising;
- management and maintenance of Indian Sandalwood plantations;
- ownership, sale and leasing of land;
- ownership of Indian Sandalwood plantations; and
- provision of finance to investors in Indian Sandalwood plantations.

There have been no other significant changes in the nature of those activities undertaken during the year.

DIRECTORS' REPORT

Overview

At the start of this financial year, the Company anticipated a year in which increased sales of Indian Sandalwood and oil products would mark the Company's transition from forestry management to an integrated business of production, distribution and forestry management. These sales, produced from the Company's first major annual harvest, were also expected to deliver stronger financial results.

The Group changed its name to Quintis Ltd (from TFS Corporation Ltd), a change envisaged to create a unique and global Sandalwood brand to support the Company's strategy of penetrating the diverse and significant markets for Indian Sandalwood. This change was approved by shareholders at the 2016 Annual General Meeting and was effective in March 2017.

On 21 March 2017, in the week of the Company's rebrand to Quintis Ltd, a paper published by California-based short seller Glaucus Research Group resulted in a material fall in the Company's share price. This prompted queries from the Australian Securities Exchange and a response from Quintis on 27 March 2017 which noted, amongst other things, that the Company's first Chinese customer for its Indian Sandalwood, Shanghai Richer Link, had not yet requested any product shipments in 2017.

On 27 March 2017, the Company's founder and Managing Director, Mr Frank Wilson, resigned and indicated that he had received an offer to potentially partner with an international corporation to present a proposed change of control transaction to the Group. Mr Julius Matthys, who at the time was a Non-Executive Director, was appointed to the position of Chief Executive Officer on 3 April 2017.

On 10 May 2017, the Company announced that Santalis Pharmaceuticals ("Santalis"), a wholly-owned subsidiary since August 2015, had entered into an agreement on 16 December 2016 to terminate its licensing and supply arrangements with Galderma, with the termination to take effect from 1 January 2017. The fact and details of the termination agreements had not been provided to members at the announcement of both the Board of Quintis and its senior management based in Australia.

On 15 May 2017, the Company's securities were placed in a trading halt and on 17 May 2017 the Company's securities were suspended from official quotation while it seeks to negotiate a recapitalisation.

This sequence of events had a negative impact on the financial performance of the Company. No plantation investment products were sold in the fourth quarter of the financial year, the period in which, historically, the majority of such plantation sales have been completed. Furthermore, the supply of the Company's wood products to China did not recommence following the cessation of supply to Shanghai Richer Link in December 2016.

The Company's cash balances reduced from \$89.793m at 31 December 2016 to \$25.393m at 30 June 2017 and during this period the Company entered into discussions in relation to potential debt and equity transactions that would have the effect of recapitalising the Company.

On 30 June 2017, the Company announced a sale to Young Living, the largest essential oil company in the world, of 2.85 tonnes of the Company's Sandalwood Album oil for US\$8.550m.

As at the date of this report, the Company is continuing discussions regarding a recapitalisation. The recapitalisation currently being contemplated involves a combination of a capital injection, amendments to existing debt facilities and the provision of working capital facilities that are expected to provide the Company with the liquidity required to support its continued operation prior to and post the implementation of the recapitalisation. The recapitalisation, if implemented, will be subject to all necessary shareholder, creditor and regulatory approvals, due diligence and other conditions precedent. While these discussions are well progressed, no binding agreements have been entered into at the date of this report and there is no guarantee that the recapitalisation will be completed in this form or another form.

DIRECTORS' REPORT

Overview (continued)

In July 2016, the Company refinanced its Senior Secured Notes ("Notes"). The Company did not publish quarterly financial reports as required under the Company's Notes by 30 May 2017 triggering an Event of Default. As the Company obtained a waiver on 8 July 2017 which was within 30 days of receiving notice of the Event of Default, no Repurchase Event was triggered and Quintis retained the unconditional right to defer principal payment on the Notes. As at 30 June 2017, the Company was in compliance with other covenants of these debt facilities. On 1 August 2017, the Company did not make an interest payment of US\$10.938m that was due on the Notes. Consequently, a Forbearance Agreement was entered into with the requisite majority of the Noteholders on 30 August 2017 whereby those Noteholders agreed to refrain from taking enforcement action in relation to the default arising from the non-payment of the 1 August 2017 instalment of interest. The Forbearance Agreement will continue until 1 March 2018 subject to a number of termination events, including the event whereby Quintis does not successfully execute a recapitalisation plan by 17 November 2017.

Review of Results and Operations

The operations and results of the Group for the financial year are reviewed below. This review includes information on the financial position of the Group, and its business strategies and prospects for future financial years.

Operations Review

A review of the operations and of the results of those operations of the group during the year is as follows:

	2017	2016
	\$'000	\$'000
Total revenue and other (expenses) / income	(209,800)	268,793
Net (loss) / profit	(595,854)	122,798
Depreciation and amortisation	13,329	11,163
Finance costs and interest received	40,883	29,200
EBITDA (a)	(541,642)	163,161
Biological asset fair value movement (including FX movement)	307,371	(76,892)
Revenue from deferred fees, net of fees realised upon tree buy back and impairment	17,103	(16,233)
Onerous contracts and derivative financial liabilities	30,318	-
Unrealised foreign exchange (gain) / (loss) on Senior Secured Notes	(7,013)	4,759
Gain on settlement of trade debtor	(153)	(206)
Gain on acquisition of controlling interest in Santalis and Santalis Healthcare Corporation	-	(17,177)
Fair value gain on contingent consideration liability	(24,357)	(1,909)
Revaluation loss of land and buildings recognised in profit and loss	11,331	6,661
Impairment of goodwill and intangible assets	154,698	-
Impairment of plant and equipment	26,699	-
Realised biological asset fair value loss attributable to wood and oil products sold	6,249	-
Cash EBITDA (a)	(19,396)	62,164

- (a) EBITDA is defined as earnings before interest, tax, depreciation and amortisation. Cash EBITDA excludes the impacts of interest, tax, depreciation, amortisation, asset acquisitions, disposals and non-cash impairments, as well as items that are subject to significant variability from one period to the next, including the effects of fair value adjustments and fluctuations in exchange rates. Cash earnings per share represents cash EBITDA for the period divided by the weighted average number of shares on issue during the period. The non-IFRS financial information is unaudited however the numbers have been extracted from the audited financial statements and included in our review to provide an understanding of the underlying performance of Quintis' operations.

DIRECTORS' REPORT

Operations Review (continued)

Biological Asset Fair Value Movement

During the year ended 30 June 2017, the biological assets of the Group experienced a \$307.371m loss on revaluation (excluding the external MIS grower interest). This has been driven primarily by changes in key inputs into the valuation model following the Group's completion of its fourth plantation harvest and ongoing assessment of the biological assumptions applied in the Directors' valuation. The most significant of the changes to the key inputs has been an increase to the discount rate used in the fair value calculation. The rates have been increased from between 12% and 14% (depending on the age of the plantation) to between 15% and 17% to reflect the increased uncertainty of the returns from the biological assets, due to the developments in 2017, as outlined above in the Directors' Report.

Harvest of Plantations

In July 2016, the Company completed the annual harvest for 2016 of 99 hectares. This harvest was the first significant harvest of the Company and grower-owned Indian sandalwood plantations. This harvest yielded over 300 tonnes of heartwood, which was in line with the Company's yield projections prior to harvest.

The fourth harvest of Indian Sandalwood from plantations established in Kununurra commenced in June 2017 with the harvest of approximately 81 hectares. The remaining 28 hectares of TFS 2002 will be harvested in FY18. This harvest yielded approximately 140 tonnes of heartwood which was below the Company's yield projections prior to harvest.

Wood owned by the Group is in the process of either being processed into marketable products at the Group's Processing Centre in Kununurra or chipped and transported to the Group's distillery in Albany to produce Indian Sandalwood oil. The harvest produce owned by growers will be sold at tender at the conclusion of the harvest and after an appropriate period of marketing.

Impairment of Pharmaceutical Division

The recoverable amount for the pharmaceutical Cash Generating Unit ("CGU") has declined since the Directors' last review of the CGU. The Group's objectives for Santalis continue to include the development of various over-the-counter ("OTC") and prescription products to ultimately commercialise these products. The Group has undertaken additional market research and benchmarking data on Santalis' products and subsequently adjusted the probability of success for its prescription products from between 27% and 58% to between 5% and 25%. Further, Quintis has re-evaluated the probability of success for Santalis' OTC products from 100% to 50%. As a result, the earning potential for Santalis has changed resulting in a non-cash impairment of \$122.407m being recognised in relation to in-process research and development, with \$114.520m relating to the prescription products portfolio and \$7.887m to the OTC portfolio. In addition, \$12.086m of goodwill previously recognised on acquisition was also impaired in the current year.

Manufacture of Distribution of Australian Sandalwood Oil and Related Products

A 100% owned subsidiary, Mount Romance Australia Pty Ltd, manufactures and distributes Indian and Australian Sandalwood oil and related products to international markets. In the year to 30 June 2017, the Mount Romance business contributed a negative EBITDA of \$27.118m (2016: EBITDA of \$10.949m).

Management and Maintenance of Plantations

The Group completed a full inventory count and analysis of its estates during the year and has applied the results in this Financial Report. These results included:

- the first count of plantations established in 2016 with an excellent tree survival rate of 98% (2016: 98%), and
- average mortality on all other plantations at approximately 1.6%.

Ownership of Land and Plantation

Quintis continues to expand its plantations under management and established over 888 hectares of new Indian Sandalwood plantations during the financial year (2016: 1,600 hectares).

The Group's geographic land and plantation composition (expressed in hectares) at 30 June 2017 is set out below.

DIRECTORS' REPORT

Operations Review (continued)

	Established Plantations			
	WA	QLD	NT	Total
Quintis interest	1,454	653	1,121	3,228
Institutional plantations	1,050	185	3,241	4,476
MIS / SIO plantations (i)	2,907	815	1,486	5,208
Total (Hectares)	5,411	1,653	5,848	12,912

- (i) As at 30 June 2017, the Group was entitled under its deferred management fee arrangements to the gross harvest proceeds from an estimated 1,143 hectares (2016: 993 hectares) of plantations.

During 2017, the Group increased its direct ownership of plantations to 3,228 hectares (2016: 2,638 hectares).

This increase in Company-owned plantations is mainly due to the establishment of 243ha in 2017, planted in anticipation of a sale to an institutional investor, and the termination of a sales contract with an institutional investor due to non-payment (as announced on 6 June 2017) which resulted in the ownership of the plantation (357ha) reverting back to the Company. The Board believes that, to the extent the Group's cash flow will permit, having a greater direct holding in the Sandalwood asset itself, rather than simply being a supplier of plantation services, will ultimately result in greater value to all shareholders.

It should be noted that the Board considers the Group's investor partnerships (institutional, sophisticated and retail sales) to be a key platform for the Group's operations. All growers are aligned to common objectives being to maximise the returns from the Indian Sandalwood plantations. Quintis expects to generate significant performance fees from the institutional and sophisticated investors upon the harvest and sale of their plantations.

Provision of Finance

Arwon Finance Pty Ltd ("Arwon"), a 100% owned subsidiary, is a provider of finance, with the major focus being the provision of finance to investors in agricultural projects promoted and managed by the Group. Arwon also continues to manage loan portfolios that are owned by a subsidiary of the Commonwealth Bank of Australia and Burlington Loan Management Limited.

In June 2016, the Group entered into agreements to sell a portfolio of loans advanced to plantation investors and to commence loan funding programmes with two Australian financiers. The sale was settled in August 2016 which contributed \$10.482m in cash in the period. Under the terms of the sale agreements, non-performing loans will be repurchased by the Group. Each loan is secured by the underlying Indian Sandalwood plantation assets and provides full recourse to the borrower.

Going Concern and Recapitalisation Progress

The past year has been challenging for the Group given the performance of the business, the decline in shareholder value and the need to finalise a recapitalisation of the Group.

DIRECTORS' REPORT

The Group's ability to continue as a going concern relies on the ongoing support of its lenders as well as the successful completion of a recapitalisation of the Group. The Company is continuing discussions in relation to a recapitalisation that will provide the Group with a sustainable level of funding support until it stabilises its trading results and sufficiently improves operating cash flows. The recapitalisation currently being contemplated involves a combination of a capital injection, amendments to existing debt facilities and limited working capital facilities to provide the Group with additional liquidity support for its continued operation prior to and post the implementation of the recapitalisation.

The recapitalisation, if implemented, will be subject to all necessary shareholder, creditor and regulatory approvals, due diligence and other conditions precedent including:

- Quintis successfully negotiating the waiver of put options with an institutional investor and a number of sophisticated investors arising from sales in prior years (refer Note 20) to reduce the put option amount to an agreed aggregate maximum;
- Counterparties' Board approval of the recapitalisation agreement;
- Completion of due diligence procedures by the counterparties;
- Quintis shareholders' approval of the recapitalisation; and
- Foreign Investment Review Board ("FIRB") approval and other regulatory approval, as necessary.

The discussions are well progressed but no binding agreements have been entered into as at the date of this report. The Board has reasonable grounds to believe that a successful outcome will be concluded in the coming months.

Operating Results

The consolidated net loss after tax of the Group for the financial year amounted to \$416.769m (including \$154.698m of intangible assets impairment) compared to \$90.143m profit in the prior year.

Operating Revenue

Total revenue from ordinary activities totalled \$97.407m, down from \$191.703m in 2016. The main contributors to the Group's revenue are:

- establishment of new plantations to institutional and sophisticated investors ("SIO");
- sales of Sandalwood products; and
- fees for the provision of plantation management services.

Consistent with prior years, income from establishment fees charged on the sale of new plantations to investors is recognised as revenue in the Statement of Profit or Loss based on the proportion of work performed at the reporting date. The new sales finalised in the year to 30 June 2017, which will be recognised in both the 2017 and 2018 financial years, comprised:

Investor	2017	2016
Institutional (Hectares sold)	188	521
Sophisticated Investors (Hectares sold)	63	588
Managed Investment Schemes (Hectares sold)	0	67
Total Hectares Sold	251ha	1,176 ha
Total Establishment Fees	\$20.061m	\$86.948m
Average Establishment Fee per Hectare	\$79,998	\$73,908

The total establishment fees generated in FY17 declined when compared to FY16 due to the Group electing to hold off plantation sales to SIO and RIO investors while the Group undertook transformation activities to recapitalise the Company. The average establishment fee per hectare improved in 2017 due to price increases in excess of 7% on all plantation products sold.

DIRECTORS' REPORT

Plantation products sold to sophisticated investors and institutional investors allow the investors to participate in returns through to oil sales (this compares to the MIS product which allows investors to participate through to sales of the harvested wood). The institutional and sophisticated contractual arrangements include performance fees which entitle the Group to participate in the returns of a completed investment once a hurdle rate of return has been achieved. The Group does not recognise any value for these performance fees.

None of the plantation sales made by the Group in 2017 included options for the plantation investors to put their plantations to Quintis in a subsequent year.

Revenue from the sale of Sandalwood products, including Indian Sandalwood oil and processed wood products, increased to \$39.289m in the year to 30 June 2017 from \$29.854m in the prior year. This was driven by an increase in the annual harvest in 2016. During the year, the Group continued to deliver into supply agreements for processed wood products and oil supply contracts, with customers, including Lush Cosmetics in Europe and Young Living in the United States of America.

Included within Other Income and Expenses is the revaluation of the Group's owned biological assets. This resulted in a revaluation loss of \$307.371m for the year ended 30 June 2017, compared to a gain of \$76.892m in 2016. The key driver of this year on year reduction was a change in certain key inputs into the valuation model following the Group's completion of its fourth plantation harvest and ongoing assessment of harvest results and biological assumptions applied. This process led to a reduction in forecast heartwood production, decrease in projected oil content, an increase in processing costs as a result of lower volumes being processed, as well as an upward adjustment to discount rates applied to reflect an increase in risk.

Operating costs

Operating costs on core activities included the following movements during the year:

- direct plantation and other operating expenses decreased 10% to \$27.735m (2016: \$30.776m) with the lower activity levels and the efficiency savings in forestry operations in all regions;
- raw materials and consumables increased 131% to \$36.240m (2016: \$15.676m) due to increased volume of wood and oil sold in the year;
- salaries and wages increased by 11% to \$36.499m (2016: \$32.920m) as a consequence of the increase in size of plantations under management. The average number of permanent employees at 30 June 2017 was 210, an increase of 5% on 2016; and
- sales and marketing expenditure decreased by 50% to \$3.860m (2016: \$7.723m).

During the year, the Group successfully acquired the wood from the second MIS grower harvest (the TFS Sandalwood Project 2000, planted by the Group in 2001) via public tender. This wood was processed into oil at the Group's Mt Romance distillation facility and sold in the current year.

Interest and Financing Expenditure

Interest and finance costs for the year totalled \$30.970m (2016: \$30.397m). The Group's Senior Secured Notes are denominated in US Dollars. The decrease in costs was driven by a decline in the applicable interest rate on the Group's Senior Secured Notes from 11% down to 8.75% per annum. This was offset slightly by the strengthening of the US Dollar and an increase in total debt following the issuance of US\$250.000m of Senior Secured Notes (with a coupon rate of 8.75% due in 2023) in July 2016. The Group paid \$10.648m for the early call premium on the 11% senior secured note redeemed in the current year.

Statement of Financial Position

Current Assets

Current assets decreased by 56% to \$108.407m (2016: \$248.226m) due to lower cash and cash equivalents (with \$25.393m at 30 June 2017), lower trade and other receivables following reduced sales from services (\$97.407m at 30 June 2017) and decrease in the amount of biological assets expected to be harvested and sold within 12 months.

DIRECTORS' REPORT

Non-current Assets

Non-current assets decreased by 39% to \$764.987m (2016: \$1,243.731m) mainly due to an decrease in the value of the Group's biological assets (to \$437.583m from \$742.961m at 30 June 2016) and an decrease of 59% in intangible assets and goodwill (to \$107.883m from \$265.218m at 30 June 2016) following a \$154.698m impairment charge recognised during the year.

The Group's biological asset decreased considerably during the year following a downward revaluation of plantations driven by a revision of key inputs applied in the valuation model. This was partially offset by the repossession of \$52.357m in plantations from investors, buyback from investors and the establishment of new plantations.

Property, plant and equipment decreased to \$148.738m (2016: \$173.125m) due primarily to a \$26.699m impairment charge and a \$11.331m downward revaluation of land and buildings recognised in profit and loss (with \$5.916m recognised through asset revaluation reserve) during the year, offset partially by the acquisition of irrigation and infrastructure assets, commensurate with the operational activities of the Group.

In accordance with our accounting policy, the Group engaged CBRE Valuations Pty Limited to provide an independent market appraisal of approximately 71% of the Group's properties located throughout the tropical regions of Northern Territory, Queensland and Western Australia in the prior year, with the remaining properties independently valued by CBRE in 2017. An accredited external independent valuer (Colliers) was also engaged in FY17 to perform an annual evaluation of market conditions for the Group's properties and whether previously adopted external valuations continue to reflect fair value. Fair values were then adjusted by management to reflect any encumbrances on the properties. The encumbrance is due to the properties being used for Sandalwood plantations, meaning the properties cannot be used for any other activity until the trees have been harvested. The net result of the fair value adjustment was a \$11.331m (2016: \$6.661m) (pre-tax) charge to in the profit and loss and a \$4.141m (2016: \$1.787m) (net of tax) charge to the asset revaluation reserve.

Current Liabilities

Current liabilities increased by 300% to \$381.887m (2016: \$95.403m) due to the reclassification of the Group's Senior Secured Notes of \$333.673m and \$11.563m of the loan book liability from non-current to current liabilities, offset partially by a decrease in trade and other payables by 63% to \$18.041m (2016: \$49.353m).

The Company did not publish quarterly financial reports as required under the Company's Notes by 30 May 2017 triggering an Event of Default. As the Company obtained a waiver on 8 July 2017 which was within 30 days of receiving notice of the Event of Default, no Repurchase Event was triggered and Quintis retained the unconditional right to defer principal payment on the Notes. The Company was in compliance with other covenants as at 30 June 2017 but did not make an interest payment of US\$10.938m that was due on the Company's Notes on 1 August 2017. A Forbearance Agreement was entered into with the Noteholders on 30 August 2017 whereby those Noteholders agreed to refrain from taking an enforceable action in relation to the default arising from the non-payment of the 1 August 2017 instalment of interest. With due consideration of the above events, the 8.75% Senior Secured Notes have been reclassified from non-current to current liabilities.

During the current financial year, the Group sold a part of its loan book, refer to Note 19(b) for further details on the loan book sale. The sales were undertaken in three separate transactions and two of these sale agreements included a requirement for the Company to maintain its trading status on the Australian Securities Exchange ("ASX"). The Company has been in a trading suspension since 17 May 2017 which represents an Event of Default.

This Event of Default under the sale agreements would have become an obligation on the Group to repurchase all outstanding loans subject to the sale agreements if an appropriate waiver was not obtained by 22 July 2017. As at 30 June 2017, the Company was within the remedy period. However, a waiver from the acquirer to ensure a Repurchase Event was not triggered, was not obtained until after 30 June 2017. Accordingly \$11.563m of the loan book liability has been classified as a current liability.

The total net amount of borrower loans that could be the subject to this repurchase obligation as at 30 June 2017 is \$10.500m.

DIRECTORS' REPORT

ASIC Investigation

Since April 2017, the Company has received 7 notices, issued by the Australian Securities and Investments Commission ("ASIC") pursuant to its statutory powers, to produce documents as part of an on-going investigation. The Company has also received two statutory notices from ASIC requiring the Company to provide ASIC with all reasonable assistance. Directors and certain Key Management Personnel of the Company have been served with statutory notices requiring each of them to appear separately before ASIC for examination. The Company and its directors and officers are cooperating with ASIC in relation to these issues.

Investigation into Export Documentation

During the last quarter of the financial year, the Group commenced a review into export documentation at its subsidiary, Mount Romance Australia, which identified certain instances in which secondary invoices were issued to a limited number of international buyers of the Company's Australian sandalwood products. The investigation did not identify any evidence of any benefit or loss to either the Group or any individuals employed by the Group. As at the date of this report, while the investigation remains on-going, the Group has taken disciplinary action and updated its policies to ensure the cessation of this practice.

Risk Management

The Group takes a pro-active approach to risk management. The Risk Committee is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

Community

At Quintis, we believe in contributing to the communities where we work. Around 90% of our workers (employees, casuals and contractors) are located in regional Australia and in many of these areas like Albany and Kununurra, Quintis is a significant regional business. To deliver economic and social benefits to these communities, we provide local employment, use local suppliers and sponsor local charities and associations. By focusing on sponsorships that promote long-lasting benefits like education-based initiatives, we help to build capacity in these rural communities.

Health and Safety

The health and safety of our employees is paramount to us and is critical to the success of our business. We have governance structures at Board and executive levels to guide and monitor health and safety performance and have continued to focus on identifying and controlling workplace health and safety hazards and risks. Management have implemented hazard reporting and inspection processes to better fit legislative requirements across three jurisdictions, with a lost time injury frequency rating of 20.7 (2016: 27.9). These have been fully deployed with full support from the Board. Safety quality and environmental officers have been trained in maintaining required standards of knowledge and practice across the business to mitigate workplace risks.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the year, other than those disclosed in the Operations Review.

Significant events after the balance date

Going Concern and Recapitalisation Progress

Other than those matters contained in the Operations Review, there have been no other developments subsequent to balance date in respect of the Group's debt facilities and recapitalisation progress.

Put options - Institutional investors

Included in a sale 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. Throughout April to August 2017, the Group negotiated revised terms to the put option which saw the exercise window for the put option deferred to December 2017.

On 11 August 2017, the institutional investor allowed an exercise window from 9 August 2017 to 11 August 2017 to lapse without exercising the put option. As at the date of this report, the investor retains the following exercise windows:

DIRECTORS' REPORT

Significant events after the balance date (continued)

- Between 11 December 2017 and 15 December 2017 with settlement to occur at the end of December 2017. If exercised during the December 2017 window, the settlement value would increase by an annualised rate of 15% between July 2017 and December 2017;
- If not exercised in December 2017, it may be exercised at any time prior to 31 December 2018 with a settlement value of US\$34.000m, but only following a change of control transaction.

If the option is exercised, US\$29.303m will be payable by the Group in December 2017.

Shareholder Class Action

On 12 September 2017, the Company received an originating application and statement of claims ("the Proceedings") lodged in the Federal Court of Australia on 7 September 2017 and dated 12 September 2017.

The Proceedings brought by some Quintis shareholders allege that the Company breached continuous disclosure provisions of the Corporations Act 2001 and the ASX Listing Rules in relation to the termination of a Sandalwood oil supply agreement between pharmaceutical company Galderma and Quintis' wholly owned subsidiary Santalis Pharmaceuticals Inc.

Quintis denies liability in respect of these allegations and will defend the proceedings. The outcome of the case cannot be reliably determined at the time of the release of this report.

Action against certain SIO Investors

On 17 July 2017, the Company announced its wholly owned subsidiary, Arwon Finance Pty Ltd, has resolved to commence enforcement action against two existing SIO investors who are in default of their repayment obligations under existing loan agreements. One of these investors is Mr Frank Wilson, the Company's former Managing Director, who is in payment default under his \$11.100m loans with Arwon Finance Pty Ltd. The outstanding amount is secured over the investors' plantation interests.

Credit Rating Changes

On 31 July 2017, credit rating agency Moody's downgraded the Company's corporate rating and Senior Secured Notes rating from Caa1 to Ca. On 4 September 2017, Moody's further downgraded the Company's corporate rating and Senior Secured Notes rating from Ca to C.

Separately on 1 September 2017, credit rating agency S&P Global Ratings downgraded the Company's corporate rating and Senior Secured Notes rating from CCC- to D.

These rating changes had no impact on the Company's debt capital structure, but may impact the Group's cost of borrowing for new financing arrangements in future periods as well as the measurement of financial liabilities carried at fair value.

Loan Book Sale

Other than those matters contained in the Operations Review, there have been no other developments subsequent to balance date in respect of the Group's loan books sold.

Short Term Funding Agreement

On 13 November 2017, the Company entered into a new financing facility for up to US\$20.0 million through a Note Agreement and Guaranty ("Note Agreement") with a majority of the existing holders of Quintis' Senior Secured Notes. The Note Agreement will allow the Company to issue up to US\$15.0 million of Series A Notes and up to US\$5.0 million of Series B Notes, each series having a coupon of 12.0% per annum and a maturity of 31 May 2018. The interest coupon can be capitalised at the maturity date or when a recapitalisation transaction occurs.

Other than the above, there have been no significant events occurring after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Future Developments, Prospects and Business Strategies

The Directors foresee that for the 2018 financial year, the most significant areas of focus will be in:

DIRECTORS' REPORT

Future Developments, Prospects and Business Strategies (continued)

- the successful completion of a recapitalisation process and amendments to debt facilities that will provide the Group with adequate funding support until it stabilises its trading results and sufficiently improves operating cash flows; and
- the distillation of oil from both Indian and Australian Sandalwood trees with a focus on the processing of pharmaceutical grade Indian Sandalwood oil.

In the medium to long term, the Group will have a continued focus on:

- increasing the direct ownership of Indian Sandalwood plantations;
- research and development of botanical pharmaceuticals and bio-pharmaceutical products for commercialising;
- increased and broader distribution of Sandalwood products to customers in US, Europe, China and Asia in markets for wood and oil; and
- the sale of new plantations to institutional and sophisticated investors in domestic and international markets.

Environmental Management

The Group's operations are subject to significant environmental regulations under the laws of the Commonwealth of Australia and the various States and Territory where the Group operates. There have been no significant known breaches of any environment regulations to which the Group is subject.

The Directors have considered the National Greenhouse and Energy Reporting Act 2007 ("the NGER Act") which introduced a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production corporations. At the current stage of development, the Directors have determined that the NGER Act does not affect the company for the current or subsequent financial year. The Directors will reassess this position as and when the need arises.

Dividends

No dividend has been paid or proposed in respect to the current financial year.

The following dividend was declared and paid during the 2017 financial year in relation to 2016 financial year:

	Cents per share	Total amount \$'000	Date of payment
2016 final ordinary - fully franked	3 cents per share	11,642	8 November 2016

Indemnification and insurance of directors and officers

To the extent permitted by Law, the Company has indemnified the Directors of the Company for costs incurred, in their capacity as a director, for which they may be held personally liable, except where there is a lack of good faith. During the financial year, the Company paid a premium in respect of a contract to insure the Directors of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

During or since the financial year, the Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company other than:

- (a) A wilful breach of duty; and
- (b) A contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The cover included professional indemnity as well as Directors and Officers' insurance. The contract prohibits the disclosure of the nature of the liabilities or the amount of premium paid.

Indemnification of auditors

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

DIRECTORS' REPORT

Options, Warrants and Performance Rights

At the date of this report, the unissued ordinary shares of Quintis Ltd under option, warrants or performance rights are as follows.

Grant Date	Date of Expiry	Exercise Price	Number under option / warrants
1 August 2011	15 July 2018	\$1.28	54,298,240
21 February 2008	31 December 2017	\$1.80	1,000,000
27 January 2015	27 January 2022	\$-	749,595
18 December 2015	18 December 2022	\$-	1,046,447
15 December 2016	19 December 2023	\$-	916,234

Option holders do not have any rights to participate in any issues of shares or other interest in the company or any other entity. 91,760 warrants with an exercise price of \$1.28 per share were exercised during the year or up to the date of this report. The value of the options exercised was \$26,610, determined at the time of exercise at the intrinsic value.

Proceedings on Behalf of a Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

Rounding

The amounts contained in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$000) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

Auditor's Independence Declaration to the Directors of Quintis Ltd

As lead auditor for the audit of Quintis Ltd for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Quintis Ltd and the entities it controlled during the financial year.



Ernst & Young



D S Lewsen
Partner
14 November 2017

DIRECTORS' REPORT

Auditor independence and non-audit services (continued)

Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Other assurance services	112,204
Tax compliance	125,500
Other	57,845
	<u>295,549</u>

REMUNERATION REPORT - AUDITED

1. Remuneration Report Overview

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the Directors and for the Key Management Personnel ("KMP") of Quintis Ltd (the "Company") and its controlled entities (the "Group") for the financial year ended 30 June 2017. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Company.

The information provided in this remuneration report has been audited as required by section 300A of the *Corporations Act 2001*.

The table below outlines the KMP of the Group during the financial year ended 30 June 2017. Unless otherwise indicated, the individuals were KMP for the entire financial year.

D. Gooding	Non-Executive Chairman
G. Groppoli	Non-Executive Director
M. Kay	Non-Executive Director
G. Franklin	Non-Executive Director (Resigned 30 June 2017)

J. Matthys	Chief Executive Officer ("CEO") (appointed as CEO on 3 April 2017)
F. Wilson	Managing Director (Resigned 27 March 2017)

P. Castella	Chief Executive Officer of Santalis Pharmaceuticals Inc
Q. Megson	GM Operations and Corporate Services
A. Stevens	Chief Financial Officer ("CFO")
I. Thompson	GM Commercial Operations

2. Overview of Executive Remuneration

2A. Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the CEO and the Executive team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and Executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality Board and Executive team.

The Remuneration Committee meets regularly through the year. The CEO and CFO attend certain Remuneration Committee meetings by invitation, where management input is required. The CEO and CFO are not present during any discussions related to their own remuneration arrangement.

2B. Remuneration Policy

The Group's policy for determining the nature and amount of emoluments of Board members and Executives of the Group is as follows:

Non-Executive Director Remuneration

Applying best corporate governance practice, the structure of Non-Executive Director (“NED”) remuneration is distinct and separate from Executive remuneration. The Board periodically considers advice from external advisors and benchmarks the fees paid to NED’s of comparable companies when undertaking the annual review process.

Directors' fees are determined within an aggregate Directors’ fee pool limit, which is periodically recommended for approval by shareholders. The aggregate fee pool limit currently stands at \$800,000 and was approved by shareholders at the Annual General Meeting of 14 November 2014. The table below provides details of Board and Committee fees for the 2017 financial year and current Committee membership. The fee levels shown were current as at 30 June 2017.

Directors’ fees comprise cash and the statutory superannuation contribution. They have no entitlement to any performance based remuneration or participation in any share-based incentive schemes. They are not eligible for termination payments. Any further services provided by NED’s that may be requested by the Chairman and are outside the normal expected duties of a Director are remunerated at an agreed arm’s length rate.

Main Board (current at the date of this Report)	2017 \$
Chair	180,000
NED	85,000
Audit Committee	
Chair	12,000
Member	5,000
Remuneration Committee	
Chair	10,000
Member	5,000
Risk Management Committee	
Chair	10,000
Member	5,000

After the positive first half of FY17, the Chair and NED’s received an increase in fees (Main Board increase to \$200,000 and \$100,000 for Chair and NED’s respectively, and Committees an increase to \$15,000 and \$10,000 for Chairs and NED’s respectively). Given the circumstances in the second half of FY17, the Chair and NED’s fees reverted back to the amounts paid in FY16 (refer table above).

CEO and Other Executives’ Remuneration

The CEO, MD and other Executives’ remuneration packages are all subject to Board approval. The remuneration structure for the CEO, MD and Executives is based on factors of qualifications, skill and experience of the individual concerned, market conditions and the overall performance of the company. The current Executive remuneration structure contains the following key elements:

- A fixed component to attract and retain quality management. This is structured as cash salary and superannuation;
- A performance linked annual Short Term Incentive (“STI”) bonus for reaching or exceeding a range of key performance indicator measures. The bonus plan enables the MD and senior executives to earn 0% to a maximum 30% of their Total Fixed Remuneration. The CEO is entitled to a STI to earn 0% to a maximum of 100% of fixed remuneration, being \$600,000 (exclusive of superannuation) per annum; and
- Eligibility for participation in the Quintis Long Term Incentive Plan (“LTIP”), as approved by shareholders.

The contracts for service between the Company and specified Directors and Executives are reviewed on a periodic basis. There are no conditions in the contracts that provide for any specific amounts payable on termination.

The Remuneration Committee regularly reviews the level of Executive remuneration and, in particular, the level of any performance bonuses. During the year the Committee undertook the following activities in order to ensure an appropriate remuneration structure was determined that would adequately incentivise key Executives of the Company, while ensuring the interests of the shareholders were maintained:

- Continued use of an executive Long Term Incentive (“LTI”) scheme to contribute to key employee retention; and
- Update the CEO, MD and Executives’ key performance indicators on an annual basis to reflect strategic and business milestones and ensure robust measurement for STI’s.

2C. Performance Based Remuneration

STI

The Group seeks to emphasise the payment of STI awards for the delivery of results through its STI Scheme. The objective of the reward scheme is to both reinforce the short and long term goals of the Company and to provide a common interest between Executives and shareholders.

The Key Performance Indicators (“KPI”) for the STI’s of the Executives and other managers in the Group are composed of a tailored combination covering financial and non-financial performance. Non-financial performance metrics vary by role and span of control and include metrics relating to the sales of plantation products, sales of Sandalwood products, cost control, forestry performance and interpersonal skills. Each KPI has been selected as it contributes directly to the performance and annual profitability of the Group.

For each KPI, a target objective is set at the commencement of each financial year. A summary of the measures and weightings are set out in the table below:

	Financial KPI’s		Non-financial KPI’s
	100% Budget Cash EBITDA	100% Budget Net Profit after Tax	Refer below
CEO	25%	25%	50%
MD ⁽ⁱ⁾	25%	25%	50%
Executives	0 - 25%	0 - 25%	0 - 50%

⁽ⁱ⁾ MD resigned on 27 March 2017

Group Cash EBITDA (refer to Company Performance, Shareholder Wealth and Director and Executive Remuneration) and net profit after tax (adjusted for unrealised foreign currency movements) are the measures against which Executives and the Board assess the short-term financial performance of the Group.

Neither financial measure was satisfied in FY17 and therefore no STI’s were payable in respect of the financial KPI’s.

The non-financial measures in the STI plan, that were applied to the KMP’s according to their roles in the organisation, included the following:

Non-financial measure	Overview and objective
Forestry Performance	<ul style="list-style-type: none"> ■ Specific measurement targets based on an annual inventory and measurement ■ Annualised mortality in the year: on target at less than 1.0% ■ Survival rate in the first year from 2016 plantings: above target at 98%
OHS&E	<ul style="list-style-type: none"> ■ Specific measurement targets for minimising safety incidents ■ KPI’s aligned to reducing claims

People Management	<ul style="list-style-type: none"> ■ Performance metrics surrounding staff retention and development ■ Clearly aligned leadership and development criteria
Stakeholder Relationships	<ul style="list-style-type: none"> ■ Qualitative measures surrounding Board and senior management communications ■ Management of external relationships such as investor, and customer relations ■ KPI's aligned to customer relationships
Compliance & Reporting	<ul style="list-style-type: none"> ■ Specific measures surrounding compliance with policies, and adherence with regulatory requirements
Environmental	<ul style="list-style-type: none"> ■ Specific measures surrounding the environment and plantation health objectives
Product Development	<ul style="list-style-type: none"> ■ Development and completion of trials of pharmaceutical products ■ Four Rx trials underway: on target and pending trial results
Sales of Plantation Products	<ul style="list-style-type: none"> ■ Achieve targeted institutional plantation sales: on target ■ Achieve targeted retail plantation sales: on target
Development of end markets for Sandalwood	<ul style="list-style-type: none"> ■ Enter into new supply agreements which broaden the distribution of the Group's Sandalwood products: ahead of target

The Board's underlying criteria for the payment of STI's will be an assessment of annual profitability. The Board retains discretion to withhold or increase individual incentives (within the maximum cap).

For the financial year ended 30 June 2017, the performance of the Group has been assessed against the Budget and plan for 2017 and it was determined that no STI would be paid in respect of the non-financial KPI's for FY17.

No STI's will be paid to KMP's in connection with activities undertaken in the 30 June 2017 financial year (2016: \$1.522m, of which \$0.462m related to KMP's). Dr Castella was paid a discretionary bonus of \$165,781 in November 2016 for services performed in 2016.

LTI

LTIs in the form of equities are provided to certain employees at the discretion of the Board. Equities are provided via the Group's LTIP, which was approved by shareholders at the 2014 Annual General Meeting.

The LTIP is intended to be the Group's principal vehicle for granting LTI awards, comprising performance rights which vest based on ongoing employment and the achievement of specifically selected performance hurdles over the relevant performance period.

The primary objectives of the LTIP are to:

- assist in the attraction, retention and motivation of key individuals;
- link the reward of KMP and other eligible executives to performance and the creation of shareholder value;
- encourage increased alignment between reward outcomes and shareholder interests by providing an opportunity to receive an equity interest in the Company, and the ability to share in future growth in Company value;
- drive long term shareholder value creation; and
- ensure enhanced focus on the Company's long term performance and strategic direction.

A performance right is determined by and awarded at the discretion of the Board. It provides in effect, a contractual right to be issued with a fully paid ordinary share in the Company (or an equivalent cash amount determined by and at the discretion of the Board) on the satisfaction of certain conditions. The performance rights issued will not vest (and the underlying shares will not be issued) unless certain performance conditions have been satisfied.

The Board determines the vesting conditions, which may include performance and/or service conditions that must be satisfied before the performance rights vest.

The vesting conditions will be measured and tested over a vesting period determined by the Board, which is currently four years.

For the first grant under this Plan issued in 2015, grants were made in two equal tranches, one with a performance period of three years (2017 Performance Rights: 1 July 2014 – 30 June 2017) and the other with a performance period of four years (2018 Performance Rights: 1 July 2014 – 30 June 2018).

For the performance rights issued under this Plan in 2016, grants were made in one tranche with a performance period of four years (2019 Performance Rights: 1 July 2015 – 30 June 2019).

For the performance rights issued under this Plan in 2017, grants were made in one tranche with a performance period of three years (2019 Performance Rights: 1 July 2016 – 30 June 2019).

Should employment with the Group cease before the Board determines whether the performance rights have vested, the treatment of unvested rights will depend on the circumstances of cessation. Resignation, termination for cause or gross misconduct, would result in unvested performance rights lapsing at cessation. If employment ceases for any other reason before performance rights vest, a pro-rata portion of unvested rights will continue “on-foot” and will be tested at the end of the original performance period, vesting only to the extent that the relevant performance conditions have been satisfied (ignoring any service related conditions). Where employment ceases (regardless of the reason for cessation) within 12 months of the start of the performance period, all unvested rights granted in respect of that performance period would lapse at cessation.

The LTIP rules provide the Board with discretion to determine that a different treatment should apply at the time of cessation, if applicable.

The Board has determined the performance conditions for the 2017 grant to be as follows:

1. Absolute Total Shareholder Return (“TSR”) – 50% of performance rights will be subject to the Company’s absolute TSR growth performance. TSR calculates the return shareholders would earn if they held a notional number of shares over a period of time, and measures the growth in the Company’s share price together with the value of dividends during the period, assuming that all those dividends were re-invested into new shares.
2. Cash EBITDA performance (“EBITDA”) – 50% of performance rights will be subject to the Company’s cash EBITDA growth performance (refer to comments below in relation to 2017). The Group’s cash EBITDA is a measure of earnings generated by the Company after eliminating the following:
 - Gain / (loss) on revaluation 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 business combination transactions; and
 - Unrealised foreign exchange gain / (loss) attributable to each share on issue.

50% of performance rights issued under this Plan in 2015 and 2016 were subject to the Company’s absolute TSR growth performance as described above. 50% of performance rights issued under this Plan in 2015 and 2016 were subject to the Company’s absolute cash EPS growth performance. The Group’s basic cash EPS is a measure of financial performance after eliminating the post-tax impact of the same adjusting items detailed above in respect of cash EBITDA.

The shift from basic cash EPS to cash EBITDA arose during the year following ongoing review of performance based remuneration by the Board through the Remuneration Committee. It was recognised by the Remuneration Committee that cash EBITDA is a more appropriate and relevant performance condition for the Company than basic cash EPS. Cash EBITDA is used as the key financial indicator of Quintis’ performance, as illustrated by its use as the lead financial metric in all internal and external reporting to the Board and shareholders.

The performance conditions are independent and will be tested separately at the end of the relevant vesting periods.

The performance conditions have been selected as they represent measures of long term shareholder value and long term performance and strategic direction. The applicable cash EBITDA and TSR performance targets and relevant vesting schedules are the same for all participants in the LTIP. The percentage of performance rights subject to the TSR hurdle and cash EBITDA hurdle that vests, if any, will be determined by the Board with reference to annual TSR growth and cash EBITDA achieved over the performance period, compared to the Company's targets, as follows:

Compound annual growth in TSR performance and cash EBITDA over the Performance Period		Rights subject to TSR and cash EBITDA hurdles that vest (%)	Rights subject to TSR and basic cash EPS hurdles that vest (%)
Maximum % or above	Greater than 12.5% p.a.	100%	100%
Between target % and maximum %	7.5% to 12.5% p.a.	Progressive pro rata vesting between 50% to 100% (i.e. on a straight line basis)	Progressive pro rata vesting between 50% to 100% (i.e. on a straight line basis)
Less than the target %	Less than 7.5%	0%	0%

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

Company Performance, Shareholder Wealth and Director and Executive Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and Executives. The total of executive KMP remuneration for those executives that remained employed for the full year was lower in FY17 than in FY16. This reflects the low STI payout in FY17 and significant forfeitures of performance rights that did not vest due to performance conditions not met. The accrual of LTIP Awards in 2017 was small and no LTI award will vest earlier than 30 June 2018, and then only if the absolute EPS, cash EBITDA and absolute TSR hurdles are met. Overall, there has been strong alignment between the company performance and the "at risk" reward for executive KMP. This is reflected in the limited STI payments recognised during the year as well as expenses reversed for LTIP awards that lapsed during the year.

The remuneration policy will continue to be reviewed by the Board through the Remuneration Committee as part of the Group's transformation process following what has been a very challenging year for the Group given the performance of the business, the decline in shareholder value and the proposed recapitalisation of the Group.

The table below shows key financial measures of Group performance over the past five years.

	2017	2016	2015	2014	2013
Total revenue and other income/(losses) (\$'000)	(209,800)	268,793	325,156	220,417	187,688
Net profit/(loss) before tax (\$'000)	(595,854)	122,798	159,398	117,117	79,842
Net comprehensive income/(loss) after tax (\$'000)	(421,433)	90,385	113,650	82,802	55,729
Cash EBITDA ⁽ⁱ⁾	(19,396)	62,163	57,533	51,400	51,804
Share price at start of the year (\$)	1.41	1.61	1.65	0.51	0.50
Share price at end of the year (\$)	0.30 ⁽ⁱⁱ⁾	1.41	1.61	1.65	0.51
Interim fully franked dividend (cents)	-	-	-	-	-
Final fully franked dividend (cents)	-	3.00	3.00	3.00	3.00
Basic earnings/(losses) per share (cents)	(107.00)	25.66	34.66	28.93	19.93
Diluted earnings/(losses) per share (cents)	(107.00)	25.01	33.30	28.93	19.93

⁽ⁱ⁾ Refer to the Operations Review on page 8 for reconciliation of Cash EBITDA

⁽ⁱⁱ⁾ Closing share price when Quintis was placed in Trading Halt on 15 May 2017

Employment details of Members of Key Management Personnel and Other Executives

The following table outlines the proportion of maximum STI earned and forfeited in relation to the 2017 financial year.

Name	Maximum STI opportunity (% of fixed remuneration)*	% of entitlement earned	% of entitlement forfeited
J. Matthys	100%	0%	100%
F. Wilson	30%	0%	100%
P. Castella	30%	0%	100%
Q. Megson	30%	0%	100%
A. Stevens	30%	0%	100%
I. Thompson	30%	0%	100%

**The maximum entitlement is reflected as a percentage of Total Fixed Remuneration based on annual performance. The minimum total value of the STI for future financial years is nil if relevant performance conditions are not satisfied. An estimate of the maximum possible total value in future financial years is 30% of Total Fixed Remuneration of the relevant performance year, except for Mr Matthys which is 100% of Total Fixed Remuneration of the relevant performance year.*

The employment terms and conditions of Executives are formalised in contracts of employment. A contracted person deemed employed on a permanent basis may terminate their employment by providing notice in accordance with their contracted terms. Current notice period for Mr Matthys is 6 months and 12 weeks for Mr Megson, Mr Stevens and Mr Thompson. No amounts for termination have been agreed or contracted for any KMP, other than for Dr Castella who would be due up to 12 months remuneration for termination of his employment contract.

Termination Payments

Mr Wilson was the only outgoing Executive in office during the 2017 financial year. Mr Wilson resigned from his position as Managing Director on 27 March 2017 and received his accrued leave entitlements in accordance with the terms of his employment contract which totalled \$448,153, including the \$58,810 accrued in the current year until he resigned. No payment was made to Mr Wilson in relation to these entitlements instead they were offset against outstanding loan balances to the Company by mutual agreement.

Mr Wilson forfeited all his unvested and unexercised share options and performance rights, as well as STI payments for the year ended 30 June 2017. Mr Wilson also forfeited payment for his notice period which was 20 weeks per his contract.

3. Statutory and Share-Based Reporting

3A. Option and Rights Holdings of KMP

						Vested at 30 June 2017	
	Balance 1 July 2016	Granted as remuneration	Options exercised	Options /rights lapsed	Balance 30 June 2017	Exercisable	Not exercisable
Director							
J. Matthys	-	-	-	-	-	-	-
F. Wilson ⁽ⁱ⁾	763,261	242,578	-	(1,005,839)	-	-	-
Other KMP							
P. Castella	-	120,520	-	-	120,520	-	-
Q. Megson	350,782	44,160	-	(50,000)	344,942	-	-
A. Stevens	289,190	108,050	-	(85,629)	311,611	-	-
I. Thompson	186,638	54,661	-	(61,890)	179,409	-	-

⁽ⁱ⁾ Mr Wilson resigned during the year and forfeited his share options and performance rights.

During the year, 1,203,358 performance rights previously issued to KMP's were forfeited due to absolute TSR and absolute EPS performance hurdles not being met, or service period not being completed. These are summarised by grant date below:

Executive Director	Performance Right	Grant date	Number lapsed during the year
Mr F Wilson	2017 Perf Right (Tranche 1)	27-Jan-15	125,000
	2017 Perf Right (Tranche 1)	27-Jan-15	125,000
	2018 Perf Right (Tranche 2)	27-Jan-15	131,334
	2018 Perf Right (Tranche 2)	27-Jan-15	131,333
	2019 Perf Right	13-Nov-15	125,297
	2019 Perf Right	13-Nov-15	125,297
	2019 Perf Right	15-Dec-16	121,289
	2019 Perf Right	15-Dec-16	121,289
Other KMP	Performance Right	Grant date	Number lapsed during the year
Mr Q Megson	2017 Perf Right (Tranche 1)	27-Jan-15	25,000
	2017 Perf Right (Tranche 1)	27-Jan-15	25,000
Mr A Stevens	2017 Perf Right (Tranche 1)	27-Jan-15	42,814
	2017 Perf Right (Tranche 1)	27-Jan-15	42,815
Mr I Thompson	2017 Perf Right (Tranche 1)	27-Jan-15	30,945
	2017 Perf Right (Tranche 1)	27-Jan-15	30,945

As the TSR hurdle is considered a market based vesting condition for accounting purposes, remuneration expense previously recognised in accordance with Australian Accounting Standards for performance rights with TSR hurdles have not been reversed notwithstanding the performance rights did not vest and were forfeited by the KMP.

No performance rights for KMP's vested during the year.

3B. Directors and Key Management Personnel Remuneration

Details of Remuneration for the Year Ended 30 June 2017

	Short Term Benefits			Post-Employment	Equity	Other Long Term Benefits	Termination	Total	Performance related
	Cash, salary & fees	Short term incentives ⁽ⁱ⁾	Other cash benefit	Super-annuation	Share based payment	Leave			
Directors	\$	\$	\$	\$	\$	\$	\$	\$	%
Mr D Gooding ⁽ⁱⁱ⁾	280,692	-	-	25,716	-	-	-	306,408	-
Mr J Matthys	219,635	-	-	20,685	-	-	-	240,320	-
Mr G Groppoli	140,563	-	-	12,833	-	-	-	153,396	-
Mr M Kay	98,478	-	-	9,138	-	-	-	107,616	-
Mr F Wilson ⁽ⁱⁱⁱ⁾	575,486	-	-	76,046	(242,202)	58,810	-	468,140	-
Ms G Franklin ^(iv)	98,935	-	-	9,182	-	-	-	108,117	-
	1,413,789	-	-	153,600	(242,202)	58,810	-	1,383,997	
Other Key Management Personnel									
Dr P Castella ^(v)	663,125	165,781	35,244	-	6,701	-	-	870,851	19.8
Mr Q Megson	244,018	-	-	22,710	(9,602)	8,642	-	265,768	-
Mr A Stevens	600,412	-	-	71,088	(16,427)	8,506	-	663,579	-
Mr I Thompson	302,047	-	-	37,176	(11,886)	9,100	-	336,437	-
	1,809,602	165,781	35,244	130,974	(31,214)	26,248	-	2,136,635	
Total	3,223,391	165,781	35,244	284,574	(273,416)	85,058	-	3,520,632	

(i) A bonus of USD\$125,000 was paid to Dr Castella in November 2016.

(ii) This includes an additional fee paid to Mr. Gooding during the year of \$85,000 in consideration of duties performed outside of what would reasonably be expected as a non-executive Chairman.

(iii) Mr Wilson resigned as a Director on 27 March 2017.

(iv) Ms Franklin resigned as a Director on 30 June 2017.

(v) Dr Castella is paid in USD and converted at the average spot rate each month. This equated to an average spot rate of \$1.326 AUD/USD over the year.

Details of Remuneration for the Year Ended 30 June 2016

	Short Term Benefits			Post-Employment	Equity	Other Long Term Benefits	Total	Performance related
	Cash, salary & fees	Short term incentives (i)	Other cash benefit	Super-annuation	Share based payment	Leave		
Directors	\$	\$	\$	\$	\$	\$	\$	%
Mr D Gooding	(ii) 267,652	-	-	25,415	-	-	293,067	-
Mr F Wilson	731,747	225,000	-	112,267	156,985	21,373	1,247,372	32.9
Mr J Matthys	82,192	-	-	7,808	-	-	90,000	-
Mr G Groppoli	97,717	-	-	9,283	-	-	107,000	-
Ms G Franklin	86,758	-	-	8,242	-	-	95,000	-
Mr M Kay	86,758	-	-	8,242	-	-	95,000	-
	1,352,824	225,000	-	171,257	156,985	21,373	1,927,439	
Other Key Management Personnel								
Dr P Castella	(iii) 629,101	-	-	-	-	-	629,101	-
Mr Q Megson	239,270	-	-	22,235	29,637	8,355	299,497	-
Mr A Stevens	490,600	147,883	-	74,429	55,978	-	768,890	28.3
Mr I Thompson	296,169	89,275	-	44,932	36,684	8,775	475,835	28.8
	1,655,140	237,158	-	141,596	122,299	17,130	2,173,323	
Total	3,007,964	462,158	-	312,853	279,284	38,503	4,100,762	

(i) The STI awards with respect to 2016 were paid in September 2016.

(ii) This includes an additional fee paid to Mr. Gooding during the year of \$85,000 in consideration of duties performed outside of what would reasonably be expected by a non-executive chairman.

(iii) Dr Castella was classified as KMP on acquisition of Santalis and Santalis Healthcare Corporation. His salary is paid in USD and converted at the average spot rate each month. This equated to an average spot rate of \$1.373 AUD/USD over the period.

3C. Share Based Payments Granted as Compensation for the Current Financial Year

The Group operated two types of ownership-based schemes for Executives and employees. The Company's LTIP, which grants performance rights, was approved by shareholders in 2014. This replaced the previous LTIP (Share Acquisition Plan), whereby shares were issued to employees financed by way of non-recourse loans. Further details of the total number of shares issued pursuant to share acquisition plan and the new LTIP are included in Note 35.

No NED's own shares through either LTIP scheme.

Performance Rights Issued in the Current Financial Year

The terms and conditions of performance rights granted to KMP during the year ended 30 June 2017 affecting remuneration in the current or future reporting periods are set out in the following table:

Executive Director	Performance Right	Grant date	Vesting Date	Expiry Date	Fair Value per right at grant date (cents)	Number granted during the year	Total fair value at grant date ³	Number vested during the year
Mr F Wilson	2019 Perf Right	15-Dec-16	30-Jun-19 ¹	15-Dec-23	\$0.96	121,289	\$116,437	-
	2019 Perf Right	15-Dec-16	30-Jun-19 ²	15-Dec-23	\$1.67	121,289	\$202,553	-
Other KMP	Performance Right	Grant date	Vesting Date	Expiry Date	Fair Value per right at grant date (cents)	Number granted during the year	Total fair value at grant date ³	Number vested during the year
Dr P Castella	2019 Perf Right	15-Dec-16	30-Jun-19 ¹	15-Dec-23	\$0.96	60,260	\$57,850	-
	2019 Perf Right	15-Dec-16	30-Jun-19 ²	15-Dec-23	\$1.67	60,260	\$100,634	-
Mr Q Megson	2019 Perf Right	15-Dec-16	30-Jun-19 ¹	15-Dec-23	\$0.96	22,080	\$21,197	-
	2019 Perf Right	15-Dec-16	30-Jun-19 ²	15-Dec-23	\$1.67	22,080	\$36,874	-
Mr A Stevens	2019 Perf Right	15-Dec-16	30-Jun-19 ¹	15-Dec-23	\$0.96	54,025	\$51,864	-
	2019 Perf Right	15-Dec-16	30-Jun-19 ²	15-Dec-23	\$1.67	54,025	\$90,222	-
Mr I Thompson	2019 Perf Right	15-Dec-16	30-Jun-19 ¹	15-Dec-23	\$0.96	27,331	\$26,238	-
	2019 Perf Right	15-Dec-16	30-Jun-19 ²	15-Dec-23	\$1.67	27,331	\$45,643	-

⁽¹⁾ TSR Performance hurdle - Absolute TSR – performance rights subject to the Group's growth in TSR over the period 1 July 2016 to 30 June 2019.

⁽²⁾ EBITDA Performance hurdle - cash EBITDA – performance rights will be subject to the Group's cash EBITDA growth performance over the period 1 July 2016 to 30 June 2019.

⁽³⁾ Determined at the time of grant per AASB 2. The fair value of the performance rights granted during the year are recognised in compensation over the vesting period of the rights, in accordance with Australian Accounting Standards.

The percentage of performance rights subject to the TSR hurdle and cash EBITDA hurdle that vest, if any, will be determined by the Board with reference to annual TSR growth and cash EBITDA achieved over the performance period.

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 1.96%. The cash EBITDA performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

Performance Rights Issued in the Previous Financial Year

The terms and conditions of performance rights granted to KMP during the year ended 30 June 2016 affecting remuneration in the current or future reporting periods are set out in the following table:

Executive Director	Performance Right	Grant date	Vesting Date	Expiry Date	Fair Value per right at grant date (cents)	Number granted during the year	Total fair value at grant date ³	Number vested during the year
Mr F Wilson	2019 Perf Right	13-Nov-15	30-Jun-19 ¹	13-Nov-22	\$0.91	125,297	\$114,020	-
	2019 Perf Right	13-Nov-15	30-Jun-19 ²	13-Nov-22	\$1.69	125,297	\$211,752	-
Other KMP	Performance Right	Grant date	Vesting Date	Expiry Date	Fair Value per right at grant date (cents)	Number granted during the year	Total fair value at grant date ³	Number vested during the year
Mr Q Megson	2019 Perf Right	18-Dec-15	30-Jun-19 ¹	18-Dec-22	\$0.78	24,582	\$19,174	-
	2019 Perf Right	18-Dec-15	30-Jun-19 ²	18-Dec-22	\$1.55	24,582	\$38,102	-
Mr A Stevens	2019 Perf Right	18-Dec-15	30-Jun-19 ¹	18-Dec-22	\$0.78	50,403	\$39,314	-
	2019 Perf Right	18-Dec-15	30-Jun-19 ²	18-Dec-22	\$1.55	50,403	\$78,125	-
Mr I Thompson	2019 Perf Right	18-Dec-15	30-Jun-19 ¹	18-Dec-22	\$0.78	30,428	\$23,734	-
	2019 Perf Right	18-Dec-15	30-Jun-19 ²	18-Dec-22	\$1.55	30,427	\$47,162	-

- (1) TSR Performance hurdle - Absolute TSR – performance rights subject to the Company's absolute TSR growth performance over the period 1 July 2014 to 30 June 2017 (Tranche 1) and 1 July 2014 to 30 June 2018 (Tranche 2).
- (2) EPS Performance hurdle - Absolute cash EPS – performance rights will be subject to the Company's absolute cash EPS growth performance over the period 1 July 2014 to 30 June 2018.
- (3) The fair value of the performance rights granted during the year are recognised in compensation over the vesting period of the rights, in accordance with Australian Accounting Standards.

The percentage of performance rights subject to the TSR hurdle and EPS hurdle that vest, if any, will be determined by the Board with reference to annual TSR growth and EPS achieved over the performance period.

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 2.15%. The EPS performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

3D. Options Issued Through the Share Acquisition Plan in the Current Financial Year

No shares were issued under the LTIP share acquisition plan in 2017.

No options were exercised during the year.

No options lapsed during the year.

The Group has a policy with respect to buying and selling Quintis Ltd securities and this is available on the website at <https://quintis.com.au/media/1153/guidelines-for-buying-and-selling-securities.pdf>

3F. Key Management Personnel Equity Holdings

Interest of Key Management Personnel (KMP Shareholding)

30 June 2017	Balance at the beginning of year	Received as compensation	Options exercised	Net change other	Balance at end of year
Directors	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Mr D Gooding	207,913	-	-	4,159	212,072
Mr J Matthys	3,348,118	-	-	-	3,348,118
Mr G Groppoli	-	-	-	-	-
Mr M Kay	164,474	-	-	64,000	228,474
Mr F Wilson ⁽ⁱ⁾	48,810,285	-	-	(48,810,285)	-
Ms G Franklin ⁽ⁱ⁾	197,368	-	-	(197,368)	-
Other KMP					
Dr P Castella	2,153,686	-	-	(1,611,899)	541,787
Mr Q Megson	-	-	-	-	-
Mr A Stevens	-	-	-	-	-
Mr I Thompson	1,815	-	-	-	1,815
	54,883,659	-	-	(50,551,393)	4,332,266

(i) Resigned as a Director during the year.

Based on the substantial shareholding notice lodged at the time, all equity transactions with KMP other than those arising from the exercise of remuneration options or performance rights, have been entered into under terms and conditions no more favourable than those the Group would have adopted in arm's length transactions.

3G. Loans to Key Management Personnel

The Group has provided several of its KMP with short-term loans at rates comparable to the average commercial rate offered to third party acquirers of the Group's plantations. The loans were wholly applied to fund the acquisition of interest in the Group's SIO investment product on the same terms as the other SIO investors.

Terms and conditions of loans to KMP and their related parties:

Loans to senior executives are charged interest at normal commercial terms and conditions that are no more favourable than those available to other parties. The average commercial rate of interest during the year was 10.1% (2016: 9.1%).

The loans to KMP are secured over their trees and are full recourse.

2017	Balance at the beginning of year	Amount advanced	Principal repayments	Sale of loan	Net change other	Balance at the end of year	Interest charged	No. in group
	\$	\$	\$	\$		\$	\$	
Director – Loans	11,336,334	-	(476,905)	-	(10,859,429) ⁽ⁱ⁾	-	611,717	1
Other key management	120,898	-	(4,213)	-	-	116,685	2,797	1
Total	11,457,232	-	(481,118)	-	(10,859,429)	116,685	614,514	

⁽ⁱ⁾ Balance at the date of resignation, being 27 March 2017.

2016	Balance at the beginning of year	Amount advanced	Principal repayments	Sale of loan	Balance at the end of year	Interest charged	No. in group
	\$	\$	\$	\$	\$	\$	
Director – Loans	12,061,500	-	(725,166)	-	11,336,334	483,707	1
Other key management	626,636	46,197	(551,935)	-	120,898	36,634	2
Total	12,688,136	46,197	(1,277,101)	-	11,457,232	520,341	

Key Management Personnel with Loans above \$100,000 in the Reporting Period

No new loans were advanced to KMP during the 2017 financial year. During the prior year, the Group provided several of its KMP with loans at 7.52% average interest rate which is comparable to the average commercial rate of interest.

Details of KMP and their related parties with aggregate of loans above \$100,000 in the reporting period:

2017	Nature of loan	Balance at the beginning of year	Amount advanced	Principal repayments	Sale of loan	Net change other	Balance at the end of year	Interest charged
		\$	\$	\$	\$		\$	\$
F Wilson	Loans ⁽ⁱ⁾	11,336,334	-	(476,905)	-	(10,859,429) ⁽ⁱⁱ⁾	-	611,717
Q Megson	Loans ⁽ⁱ⁾	120,898	-	(4,213)	-	-	116,685	2,797

⁽ⁱ⁾ Loans used solely for the purpose of investing in Quintis plantations (on terms no more favourable than other plantation investors).

⁽ⁱⁱ⁾ Balance at the date of resignation, being 27 March 2017.

2016	Nature of loan	Balance at the beginning of year	Amount advanced	Principal repayments	Sale of loan	Balance at the end of year	Interest charged
		\$	\$	\$	\$	\$	\$
F Wilson	Loans ⁽ⁱ⁾	12,061,500	-	(725,166)	-	11,336,334	483,707
I Thompson	Loans ⁽ⁱ⁾	540,080	-	(540,080)	-	-	29,135

⁽ⁱ⁾ Loans used solely for the purpose of investing in Quintis plantations (on terms no more favourable than other plantation investors).

3H. Other Transactions with Director Related Entities:

Transactions with, and amounts receivable from and payable to, specified Directors or their personally related entities occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the Director or related entity at arm's length in the same circumstances.

1. Wilson & Atkinson ceased trading in the 2016 financial year. Frank Wilson was a principal of the firm and was a part owner in the business until it ceased trading in the prior year. This company provided legal services on commercial terms to the Group. During the year ending 30 June 2016, an amount of \$159,673 was charged to the Group.
2. Other transactions with Directors as plantation investors (on terms no more favourable than other plantation investors).
 - Project lease and management fees paid by Directors during the year were \$4,035 GST inclusive (2016: \$1,821,722 GST inclusive).
3. A subsidiary of Quintis Ltd entered into a loan book sale with a related entity. The carrying value of these loans at the time of the disposal was \$1.475m. This transaction was completed at normal commercial terms and conditions that are no more favourable than those available to other parties. Dalton Gooding is a director and minority shareholder of this related entity. Refer to Notes 15 and 19 for details of the loan book sale.
4. Dalton Gooding is a Senior Partner of Gooding Partners. During the year ended 30 June 2017, an amount of \$12,906 (2016: nil) was charged to the Group by Gooding Partners for additional accounting services. This transaction was performed at arm's length terms and conditions.

4. Services from Remuneration Consultants

The Remuneration Committee engaged Gerard Daniels, an independent remuneration consultant, as an adviser to the Board to review the amount and elements of senior management's remuneration, and the salary package for the new CEO. The consultant was paid \$60,000 in 2017 (2016: \$20,000) for this remuneration advice.

The Remuneration Committee is satisfied the advice received from the independent remuneration consultant is free from undue influence from the KMP's to whom the remuneration advice apply. The remuneration advice was provided to the Committee as an input into decision making only. The Remuneration Committee considered the recommendations, along with other factors, in making its remuneration decisions.

END OF REMUNERATION REPORT (AUDITED)

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



Dalton Gooding
Chairman of the Board

Dated in Perth this 14th day of November 2017

DIRECTORS' DECLARATION

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

1. In the opinion of the Directors:
 - (a) the consolidated financial statements and notes of Quintis Ltd for the financial year ended 30 June 2017 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the *Corporations Regulations 2001*;
 - (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.3; and
 - (c) subject to the matters set out in Note 1.2 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2017.
3. At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.
4. In the Directors' opinion, subject to the matters set out in Note 1.2 there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in Note 30 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

On behalf of the board



Dalton Gooding
Chairman of the Board

Dated in Perth this 14th day of November 2017

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 30 JUNE 2017**

	NOTE	2017 \$'000	2016 \$'000
Revenue	2	97,407	191,703
Other income / (expense)	2	(307,207)	77,090
Direct plantation and other operating expenses		(27,735)	(30,776)
Raw materials and consumables used		(36,240)	(15,676)
Cost of land sold		(154)	(6,099)
Salaries and employee benefits expense		(36,499)	(32,920)
Sales and marketing expenses		(3,860)	(7,723)
Corporate and other administration expenses		(65,261)	(18,907)
Depreciation and amortisation expenses		(13,329)	(11,163)
Finance costs		(30,970)	(30,397)
Early call premium on 11% Senior Secured Notes		(10,648)	-
Foreign exchange gain/(loss)		7,013	(4,759)
Fair value gain/(loss) on biological assets - external MIS growers	11	(45,572)	21,695
Fair value gain/(loss) on external MIS grower liabilities	19	45,572	(21,695)
Fair value gain/(loss) on contingent consideration liability	19	24,357	1,909
Gain on acquisition of controlling interests	41	-	17,177
Revaluation loss on land and buildings	10	(11,331)	(6,661)
Impairment of plant and equipment	13	(26,699)	-
Impairment of goodwill and intangible assets	13	(154,698)	-
(Loss)/profit before tax from continuing operations		(595,854)	122,798
Income tax benefit / (expense)	4	179,085	(32,655)
(Loss)/profit for the year		(416,769)	90,143
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Foreign currency translation differences for foreign operations		(517)	2,029
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation of land and buildings net of tax	4	(4,147)	(1,787)
Total comprehensive (loss)/income for the period		(421,433)	90,385
Earnings per share			
Basic (loss) / earnings per share (cents per share)	28	(107.00)	25.66
Diluted (loss) / earnings per share (cents per share)	28	(107.00)	25.01

The accompanying Notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	NOTE	2017 \$'000	2016 \$'000
CURRENT ASSETS			
Cash and cash equivalents	25	25,393	106,993
Trade and other receivables	5	42,069	85,097
Inventories	6	35,679	24,985
Biological assets	11	4,520	28,247
Other financial assets	7	746	2,904
TOTAL CURRENT ASSETS		<u>108,407</u>	<u>248,226</u>
NON CURRENT ASSETS			
Trade and other receivables	8	60,067	54,554
Other financial assets	9	10,715	7,873
Property, plant and equipment	10	148,738	173,125
Biological assets	11	437,583	742,961
Intangible assets and goodwill	12	107,883	265,218
TOTAL NON CURRENT ASSETS		<u>764,986</u>	<u>1,243,731</u>
TOTAL ASSETS		<u>873,393</u>	<u>1,491,957</u>
CURRENT LIABILITIES			
Trade and other payables	15	18,040	49,353
Financial liabilities	14	352,662	14,048
Current tax liabilities	4	408	7,333
Provisions	16	8,849	2,322
Unearned income	17	1,927	22,347
TOTAL CURRENT LIABILITIES		<u>381,886</u>	<u>95,403</u>
NON CURRENT LIABILITIES			
Provisions	18	27,064	3,291
Financial liabilities	19	108,048	442,104
Deferred tax liabilities	4	17,755	198,994
Unearned income	21	21,491	4,943
TOTAL NON CURRENT LIABILITIES		<u>174,358</u>	<u>649,332</u>
TOTAL LIABILITIES		<u>556,244</u>	<u>744,735</u>
NET ASSETS		<u>317,149</u>	<u>747,222</u>
EQUITY			
Issued capital	22	284,109	280,827
Asset revaluation reserve	24	2,843	6,990
Foreign currency translation reserve	24	1,783	2,300
Option/Warrant reserve	24	9,798	10,078
Retained earnings		18,616	447,027
TOTAL EQUITY		<u>317,149</u>	<u>747,222</u>

The accompanying Notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017**

	Issued capital \$'000	Reserves \$'000	(Accumulated loss) / Retained earnings \$'000	Total \$'000
Balance at 1 July 2016	280,827	19,368	447,027	747,222
Loss for the year	-	-	(416,769)	(416,769)
Other comprehensive (loss) / income for the year	-	(4,664)	-	(4,664)
Total comprehensive loss for the year	-	(4,664)	(416,769)	(421,433)
Transaction with owners, in their capacity as owners, and other transfers				
Shares issued under the Dividend Reinvestment Plan	3,164	-	-	3,164
Share-based payments	-	(280)	-	(280)
Dividends paid in the year	-	-	(11,642)	(11,642)
Shares issued on exercise of warrants	118	-	-	118
Balance at 30 June 2017	284,109	14,424	18,616	317,149

	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2015	188,948	18,450	367,125	574,523
Profit for the year	-	-	90,143	90,143
Other comprehensive (loss) / income for the year	-	243	-	243
Total comprehensive income for the year	-	243	90,143	90,386
Transaction with owners, in their capacity as owners, and other transfers				
Shares issued during the year	91,146	-	-	91,146
Shares issued under the Dividend Reinvestment Plan	2,661	-	-	2,661
Share-based payments	-	675	-	675
Cost of issuing shares during the year	(1,928)	-	-	(1,928)
Dividends paid in the year	-	-	(10,241)	(10,241)
Balance at 30 June 2016	280,827	19,368	447,027	747,222

The accompanying Notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017**

	NOTE	2017 \$'000	2016 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		74,438	145,463
Payments to suppliers and employees		(135,525)	(116,145)
Interest received		5,084	3,623
Payments for land held for resale		-	(3,346)
Repayment of grower loans		12,954	24,961
Finance charges		(30,945)	(31,211)
Income tax payable		(7,303)	(3,099)
Net cash flows (used in)/from operating activities	25	<u>(81,297)</u>	<u>20,246</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		181	289
Payments for property, plant and equipment		(25,008)	(22,020)
Payments for investment in own plantation		(20,166)	(34,115)
Payments for land development		(241)	(3,750)
Receipts from investments		-	582
Payments for investments		(2,802)	(1,038)
Receipts from MIS custodian accounts		2,187	3,000
Payments from MIS custodian accounts		(69)	(3,371)
Payments for land and buildings		(4,869)	(16,686)
Acquisition of subsidiaries (net of cash acquired)	41	<u>-</u>	<u>(2,971)</u>
Net cash flows used in investing activities		<u>(50,787)</u>	<u>(80,080)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(266,190)	(9)
Net proceeds from borrowings		325,200	36,007
Proceeds from issue of shares		-	65,696
Dividends paid		(8,360)	(7,541)
Payment of early call premium on 11% Senior Secured Notes		(10,648)	-
Proceeds from sale of loan book		10,482	-
Net cash flows from financing activities		<u>50,484</u>	<u>94,153</u>
Net (decrease)/increase in cash and cash equivalents		<u>(81,600)</u>	<u>34,319</u>
Cash at the beginning of the period		106,993	72,674
Cash at the end of the period	25	<u>25,393</u>	<u>106,993</u>

The accompanying Notes form part of these financial statements

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial report covers Quintis Ltd ("Quintis") and its controlled entities ("the Group"). Quintis is a for-profit listed public company, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The Group is principally engaged in the promotion of Sandalwood investments and the management of Sandalwood plantations. Information on the Group's structure is provided in Note 30 and information on other related party relationships provided in Note 39.

The financial report was authorised for issue on the 14th of November 2017 by the Board of Directors.

1.1 BASIS OF PREPARATION

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

The financial report has been prepared on a historical cost basis, except for the Group's Indian Sandalwood tree plantations (which are biological assets), external MIS grower liabilities, contingent consideration, land and the put options (which are derivative financial liabilities) which have been measured at fair value.

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 current financial statements, including the key sources of estimation uncertainty are set out in Note 1(w).

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand (\$'000), except when otherwise indicated.

The Group's financial statements have been prepared on the basis of accounting policies consistent with those applied in the financial statements for the year ended 30 June 2016, except for the adoption of new and amended accounting standards and interpretations effective as of 1 July 2016. The adoption of these new and amended standards had no material impact on the financial position or performance of the Group. Refer to Note 1(x).

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

1.2 GOING CONCERN

The directors have prepared the financial report of the Group on a going concern basis, which contemplates the realisation of assets and the settlement of liabilities in the ordinary course of business.

During the year ended 30 June 2017, the Group incurred a net loss after tax of \$416.769m (including \$154.698m of intangible asset impairment) and generated negative net cash flow from operating activities of \$81.297m. At 30 June 2017 the Group's total current liabilities exceed its total current assets by \$273.479m. Total current liabilities include the Company's 8.75% Senior Secured Notes ("Notes") that were reclassified from non-current to current during the year.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.2 GOING CONCERN (CONTINUED)

In respect of the Notes, the Company did not publish quarterly financial reports as required under the Company's Notes by 30 May 2017 triggering an Event of Default. As the Company obtained a waiver on 8 July 2017 which was within 30 days of receiving notice of the Event of Default, no Repurchase Event was triggered and Quintis retained the unconditional right to defer principal payment on the Notes. The Company was in compliance with other covenants of its debt facilities as at 30 June 2017 but did not make an interest payment of US\$10.938m that was due on the Notes on 1 August 2017. Consequently, a Forbearance Agreement was entered into with the requisite majority of the noteholders ("Noteholders") on 30 August 2017 whereby those Noteholders agreed to refrain from taking an enforcement action in relation to the default arising from the non-payment of the 1 August 2017 instalment of interest. The Forbearance Agreement will continue until 1 March 2018 subject to a number of termination events including the event whereby Quintis does not successfully execute a recapitalisation plan by 17 November 2017. The Company expects to receive an extension to this 17 November 2017 deadline. The Noteholders have demonstrated willingness to extend this deadline historically.

The Company is continuing discussions in relation to a recapitalisation that will provide the Group with a sustainable level of funding support until it stabilises its trading results and sufficiently improves operating cash flows. The recapitalisation currently being contemplated involves a combination of a capital injection, amendments to existing debt facilities and limited working capital facilities to provide the Group with additional liquidity support for its continued operation prior to and post the implementation of the recapitalisation.

The recapitalisation, if implemented, will be subject to a number of conditions precedent including:

- Quintis successfully negotiating the waiver of put options with an institutional investor and a number of sophisticated investors arising from sales in prior years (refer Note 20) to reduce the put option amount to an agreed aggregate maximum;
- Counterparties' Board approval of the recapitalisation agreement;
- Completion of due diligence procedures by the counterparties;
- Quintis shareholders' approval of the recapitalisation; and
- Foreign Investment Review Board ("FIRB") approval and other regulatory approval, as necessary.

The discussions are well progressed but no binding agreements have been entered into as at the date of this report.

The Group's ability to continue as a going concern relies on the continued support of its lenders as well as the successful completion of a recapitalisation of the Group. Should the recapitalisation not occur or the Forbearance Agreement with the Noteholders be terminated, the borrowings under the Notes may become immediately due and payable and the Group will not have sufficient free cash flow to pay interest and repay the facilities.

The above matters present a material uncertainty in relation to the Group's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

After taking into account all available information, the Directors have concluded that there are currently reasonable grounds to believe:

- the Group will continue to receive the support of its Noteholders;
- negotiations in respect of the proposed recapitalisation will be satisfactorily concluded;
- the conditions precedent to the proposed Recapitalisation Agreement will be satisfied;
- the Recapitalisation Agreement will be approved by shareholders; and as such
- the preparation of the 30 June 2017 financial report on a going concern basis is appropriate.

The Directors have formed this view based on a number of factors including:

- the support that Noteholders have afforded the Group to date in ensuring a stable platform for the business to re-establish itself as demonstrated by providing the Company with interim funding;
- the absence of advice from the Noteholders of a withdrawal of their support;
- the progress made on recapitalisation negotiations to date;
- the commencement of due diligence procedures; and

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.2 GOING CONCERN (CONTINUED)

- the directors' belief that the recapitalisation plan produces a better return to shareholders and creditors than any other alternative.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company and Group not continue as a going concern.

1.3 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Quintis at the end of the reporting period. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 Financial Instruments: *Recognition and Measurement* (AASB 139), is measured at fair value with the changes in fair value recognised in the statement of profit or loss. If contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate Australian Accounting Standard. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

c) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount, or the amount due, less an allowance for any uncollectible debts. An estimate for doubtful debts is made when there is objective evidence of impairment and collection of the full amount is no longer probable. The amount provided for is the portion deemed uncollectible after the value of the trees held as security has been taken into account. Bad debts are written off as incurred. Amounts due from growers are recognised and carried at the amount stated in the loan agreement plus accrued interest, less any principal repayments received.

d) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of raw materials is determined using the weighted average cost method. For harvested trees, cost is the fair value less estimated costs to sell at the point of harvest plus harvesting costs.

Work in progress and finished goods are valued at weighted average cost of direct materials and an appropriate portion of fixed and variable overhead expenses

Land held for sale in the ordinary course of business within the next 12 months is classified as inventory and measured at cost.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories also consist of tree seedlings and seed stock intended for sale as part of the woodlots by a wholly owned subsidiary of the parent company. It also includes stock of Sandalwood related products and raw materials which are available for sale as well as some components of the Group's land that has been identified for sale in the ordinary course of the business.

e) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU's") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Where a discounted cash flow model is used to determine value in use, the Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. The budgets cover a period of 5 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Impairment losses are recognised in profit or loss, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- | | |
|--|-----------------------|
| • Disclosures for significant assumptions | Note 1(w) |
| • Property, plant and equipment | Note 1(f) and Note 13 |
| • Intangible assets | Note 1(h) and Note 13 |
| • Goodwill and intangible assets with indefinite lives | Note 1(a) and Note 13 |

f) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to profit or loss.

Plant & Equipment

Plant and equipment is measured at cost, net of accumulated depreciation and accumulated impairment losses. The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts using a value-in-use method.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciable on either a straight line or diminishing balance basis over their useful lives to the Group but commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Buildings	2 - 4%
Leasehold improvements	10 - 20%
Plant and equipment	5 - 67%

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss. When revalued assets are sold, amounts included in the revaluation reserve relating to the asset are transferred to retained earnings.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property

Freehold land and buildings are carried at fair value (refer to Note 10) based on periodic, at least every three to five years, valuations by external independent valuers.

The fair value of the properties held has been determined by the independent valuers and the directors with reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of that property.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

Land will be transferred from being classified as property held for own use to inventory as and when it is determined that the land has been set aside for sale in the ordinary course of the Group's business. On transfer the fair value of the land will become the deemed cost for inventory valuation purposes. Land held as inventory is subsequently valued at the lower of cost and net realisable value.

g) Biological Assets

The Group has interests in Sandalwood trees (the biological assets) through plantation areas established and maintained on its own account and interests in some of the managed investment schemes. The Sandalwood trees are measured at the Director's assessment of their fair value less cost to sell at each reporting date. The fair value is determined as the net present value of the expected future cash flows at harvest (discounted at a risk adjusted rate). Costs incurred in maintaining or enhancing trees are capitalised when incurred and are classified as additions at cost before the determination of the net change in fair values.

Net increments or decrements in the fair value less cost to sell of the Sandalwood trees are recognised as income or expenses in profit or loss, determined as the difference between the total fair values less cost to sell of the trees recognised as at the beginning of the year, adjusted for costs incurred in maintaining or enhancing trees which are capitalised, and the total fair values less cost to sell of the trees recognised as at the reporting date.

Key assumptions used to value the trees are set out in Note 11.

Plantations which are expected to be harvested, processed and monetised within 12 months are classified as current assets. All other biological assets are classified as non-current assets.

h) Intangible assets

Supply Agreements

Supply Agreements are recognised at cost of acquisition. The supply agreements have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. The supply agreements will be amortised from the commencement of supply over the life of the agreement.

Research and Development

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project, which range from 10 to 20 years.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill is carried at cost less impairment losses written off. See Note 1.4(a).

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). The Group determines which method to adopt for each acquisition.

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Goodwill is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored, but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Deferred lease & management fees

The Group sells plantation investments where the investor has the option to pay lease and management fees either (i) annually, or (ii) to defer the payment of these fees. Deferred lease and management fees are classified as an intangible asset in these financial statements and are measured at cost less impairment losses.

The intangible asset is derecognised on disposal or once realised post-harvest.

i) Trade and Other Payables

Liabilities for trade creditors and other amounts are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to related parties are carried at amortised cost. Interest is recognised as an expense using the effective interest method. Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

j) Leases

Leases of fixed assets, including hire purchase agreements, are classified as finance leases where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership have transferred to the entities in the Group.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments. Lease payments are allocated between the reduction of the lease or hire purchase liability and the lease interest for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease period.

k) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenue

- Establishment fee revenue in connection with the sale of timber lots under a MIS project or under other timber lot establishment contracts are recognised on a percentage of completion basis by reference to the proportion of establishment work performed at the balance sheet date. In arriving at the proportion of work performed up to the balance date, all directly attributable work is assessed including activities relating to land procurement and development, seed collection and propagation, planting, and other establishment activities;
- Lease and management fees are recognised as revenue as the management services are provided in the period to which they relate, while lease fees are recognised on a straight line basis over the term of the lease;
- Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; and
- Land sales are brought to account following the signing of a contract of sale once there are no substantive conditions outstanding and the risks and rewards of ownership are transferred to the buyer.

Interest Revenue

Interest revenue is recognised using the effective interest rate method.

Dividend Revenue

Dividend revenue is recognised when a right to receive a dividend has been established. Dividends received from investments accounted for under the equity method and joint venture entities are accounted for in accordance with the equity method of accounting.

l) Unearned Income

Establishment fee revenue

The unearned portion of the establishment fees that are not recognised as revenue for the year based on the percentage of completion method (disclosed at Note 1(k)) are deferred and classified as unearned income.

Lease and management fee revenue

Any unearned income is deferred and derecognised on a straight line basis through profit or loss as lease and management services are provided to the investor over the life of the relevant projects.

m) Taxes

The income tax expense (benefit) for the year comprises current income tax and deferred tax.

Current income tax expense charged to profit or loss is the tax payable on taxable income, calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year, as well unused tax losses.

Current and deferred income tax is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets relating to deductible temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets relating to deductible temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, investments accounted for under the equity method, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax consolidation legislation

Quintis Ltd, the head entity, and its wholly owned Australian subsidiaries have formed a tax consolidated group under the Tax Consolidation Regime. The Group nominated to become consolidated for tax purposes on 1 July 2003.

Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement, the funding of tax within the Group is based on accounting profit. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under the accounting policy, the head entity accounts for these as equity transactions with the subsidiaries. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require the payment of interim funding amounts to assist with its obligations to pay tax instalments.

n) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable
- When receivables and payables are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits not expected to be wholly settled within one year are classified as long term benefits and have been measured at the present value of the estimated future cash outflows to be made for these benefits using the projected unit credit method.

Contributions are made by the Group to employee superannuation funds, defined contribution plans, and are charged as expenses when incurred. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

p) Share-based payments

Equity-settled transactions

The Group provides benefits to its employees (including KMP) in the form of share based payments. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Quintis Ltd (market conditions) if applicable.

The Group expenses equity-settled share based payments such as share and performance rights issues after ascribing a fair value to the shares and/or performance rights issued. The fair value of option and share plan issues of option and share plan shares are recognised as an expense together with a corresponding increase in the share based payments reserve or the share option reserve in equity over the vesting period.

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- The grant date fair value of the award; and
- The expired portion of the vesting period.

The charge to profit or loss for the period is the cumulative amount as calculated above, less the amounts already charged in previous periods. Until an award has vested, any amounts recorded are contingent and except for the impact of market conditions will be adjusted if more or fewer awards vest than were originally anticipated to do so.

The proceeds received net of any directly attributable transaction costs are credited to share capital when options are exercised.

The value of shares issued to employees financed by way of a non-recourse loan under the employee Long Term Incentive Plan ("LTIP") are considered, for accounting purposes, to be options.

Own equity instruments issued under non-recourse loan arrangements are considered to be treasury shares. Consideration received in the form of services from employees is recognised in the share based payments reserve. Upon the exercise of the option under the non-recourse loan, cash paid by employees to settle the legal loan, being the exercise price for the in-substance option, is recognised as issued capital. The treasury share is also transferred to fully paid capital.

q) Earnings per share

Basic earnings per share is determined by dividing the net result after income tax attributable to members of the Company after adjusting for interest on the convertible preference shares, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the net result after income tax attributable to members of the Company after adjusting for the effects of dilutive potential ordinary shares, excluding any costs of servicing equity other than ordinary shares, by the sum of the weighted average number of ordinary shares and the weighted average number of dilutive options outstanding during the financial year.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Financial assets are classified at initial recognition as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or as available for sale ("AFS") financial assets as appropriate.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Financial assets - subsequent measurement

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate ("EIR") method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - (a) the Group has transferred substantially all the risks and rewards of the asset; or

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor substantially retained all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities - Classification and subsequent measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include contingent consideration on a business combination (see Note 1.4 (a)) financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. The latter category includes the External MIS grower liabilities that relate to third party grower interests in MIS consolidated by the Group. These liabilities have been designated at fair value through profit or loss on initial recognition to eliminate a measurement inconsistency that would otherwise arise from the recognition and measurement of the relevant Schemes' biological assets at fair value less costs to sell.

The Group issued put options to certain investors which are classified as derivative financial instruments. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date using a discounted cash flow methodology. Where risks specific to the provision are factored into the cash flow, a risk-free government bond rate relative to the expected life of the provision is used as a discount rate, alternatively, a risk adjusted discount rate is used. When discounting is used, the increase in the provision is due to the passage of time is recognised as a finance costs.

Onerous contracts

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation of penalties arising from failure to fulfil it.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for onerous contracts - Lease and maintenance obligations

The Group sells plantation investments under contracts which commit the Group to provide plantation maintenance services and access to plantation land over the life of the project in return for management fees. Where an investor elects to defer the payment of these fees, the Group will instead receive a proportion of the gross harvest proceeds from the investors' plantations.

When the unavoidable costs of meeting the obligations under the contract exceed the economic benefits the Group is expected to receive, an onerous contract has been recognised for the difference between the present value of the forecast maintenance and lease costs for the remaining life of the project and the net present value of the Group's share of expected gross harvest proceeds. The key assumptions used in calculating the onerous contract provision for maintenance obligations are set out in Note 18.

t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

u) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each entity in the Group is determined using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Foreign operations

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

v) Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial asset and liabilities.

Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports to the Audit Committee.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as valuation reports is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of AASB 13 Fair Value Measurement, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Board of Directors.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values of assets or liabilities are categorised into different levels in the fair value hierarchy based on the lowest input used in the valuation techniques as follows:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following Notes:

- Note 10: Property, plant and equipment;
- Note 11: Biological Assets;
- Note 14 and 19: Financial Liabilities; and
- Note 20: Derivatives - Put Options

Management assessed that cash and short-term deposits, trade receivables, other current financial assets, trade payables and other current liabilities carrying amounts approximate their fair values largely due to the short-term maturities of these instruments.

w) Significant accounting judgements, estimates and assumptions

The Directors make estimates and judgements 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.

Key Judgement - Control of other entities

An entity is included within the consolidated financial statements where the Group has control over the entity. Control arises from exposure, or rights, to variable returns from involvement with an entity, where the Group has the ability to affect those returns through its power over the entity. Judgement is applied by management in assessing whether control exists. This involves assessment of the purpose and design of the entity and identification of the activities which significantly affect that entity's returns and how decisions are made about those activities. In assessing how decisions are made, management considers voting and veto rights; contractual arrangements with the entity or other parties; and any rights or ability to appoint, remove or direct key management personnel or entities that have the ability to direct the relevant activities of the entity. Judgement is also applied in identifying the variable returns of each entity and assessing the Group's exposure to these returns. Variable returns include distributions, exposure to gains or losses and fees that may vary with the performance of an entity.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has interests in a number of managed investment schemes (“MIS”). As a wholly owned subsidiary is the Responsible Entity for these schemes it has the power to affect the returns of the schemes through contractual arrangement, for example by its management of the plantations. To assess whether the Group is exercising its decision making rights in the capacity of a principal or agent, the Group considers a number of factors including the quantum of its exposure to variable returns. In determining the Group’s exposure to variable returns from these schemes, the direct and indirect interests are considered and converted into a measure of the Group’s overall effective economic interest in the scheme. Where this economic interest is 30% or more of total returns, the Group considers that, for accounting purposes, it has control over the scheme.

Key Estimate- Biological Asset valuation

As referred to in Note 1(g), the Directors have made an estimate as to the fair value less cost to sell of the standing Sandalwood trees held by the Group from the time it is planted through to harvest. The carrying value of the Sandalwood trees at the reporting date is shown in Note 11. The fair value less cost to sell is calculated as the net present value of expected future cash flows. The biological asset valuation is sensitive to estimates used in calculating the expected future cash flows which include key assumptions on yields of heartwood, oil content, survival rates and the number of trees, as well as assumptions as to the future price of Sandalwood oil and the USD exchange rate.

The Group also includes assumptions on the expected future harvesting and processing (oil extraction) costs. All estimates are based on the best information currently available maximising the input of market observable data. Where there is any doubt, the Group uses the more conservative estimates.

Variations to expected future cash flows, and timing thereof, could result in significant changes to the biological asset valuation, which in turn could impact future financial results.

The determination of heartwood yield requires significant judgement. In making this judgement, the Group evaluates, among other factors, the growth rates and survival rates achieved to date.

Key Estimate- Properties valuation

Independent valuations are obtained for properties on a periodic basis. Refer to Note 10 for details of assumptions used in the last valuation and the potential impact of changes in assumptions.

In the intervening period, judgement is required in determining if the carrying value of revalued land continues to approximate the fair value of the land. In making this judgement, the Group evaluates the impact of market conditions and arm’s length transactions during the intervening period, and where consider appropriate by the Directors, engage external independent valuers to complete annual evaluations of market conditions for the Group’s properties.

CBRE provided an unencumbered value assessment for approximately 71% of the Group's properties in the prior year, with the remaining properties independently valued by CBRE in 2017. An accredited external independent valuer (Colliers) was also engaged in FY17 to perform an annual evaluation of market conditions for the Group’s properties and to advise whether previously adopted external valuations continue to reflect fair value. The unencumbered value of each property within the portfolio was then adjusted using a discounted cash flow (“DCF”) model to factor in encumbrances which apply to certain properties. The encumbrances arise as the properties are being used for Sandalwood plantations and therefore cannot be used for any other activity until the trees have been harvested.

Key Estimate - Taxation

Balances disclosed in the financial statements and the Notes thereto, related to taxation are based on the best estimates of Directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income tax legislation, and the Directors’ understanding thereof. No adjustment has been made for pending taxation legislation. The current income tax position represents the Directors’ best estimate, pending an assessment by the Australian Taxation Office.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Key Estimate - Operating Revenue

As detailed in Note 1(k) the Group recognises establishment fee revenue in connection with sale of timber lots under a MIS project or other timber lot establishment contracts based on the proportion of establishment work performed at balance date.

In arriving at the proportion of work performed to balance date, all directly attributable work is assessed including activities relating to land procurement and development, seed collection and propagation, planting, and other establishment activities are taken into account. Revenue recognition starts once an establishment contract is signed and the contract outcome can be reliably measured for the MIS project.

Key Estimate - Contingent consideration arising from business combination

As part of the acquisition of Santalis Pharmaceuticals Inc. and Santalis Healthcare Corporation (formerly known as ViroXis Corporation), part of the total consideration is contingent, based on performance of the acquired entities. A probability weighted discounted cash flow has been used to determine the fair value of the contingent consideration, net of the fair value of the option to settle in shares.

Key Judgement and Estimate - Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. In determining fair value less costs of disposal, a DCF model is used based on a methodology consistent with that applied by the Group in determining the value of potential acquisition targets, maximising the use of market observed inputs. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next 5 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the Sandalwood products, plantation management and pharmaceutical CGUs, including the sensitivity analyses of key assumptions, are disclosed and further explained in Note 13.

Key Judgement and Estimate - Deferred Lease and Management Fees

As detailed in Note 1(h) the Group recognises deferred lease and management fees as an intangible asset in the financial statements as it does not represent an unconditional right to receive cash as future services need to be provided.

The intangible asset is carried at cost and initially measured based on the best estimate of the fair value of the consideration receivable.

Deferred lease and management fees are tested for impairment at each reporting date by ensuring its carrying value does not exceed the net present value of future revenue, which is calculated by multiplying the expected gross harvest proceeds from the investor's plantations by the Group's proportional entitlement.

The expected gross harvest proceeds from the investors' plantations is determined using key estimates for biological asset valuation for the investors' plantations. The carrying value of deferred lease and management fees at year end is shown in Note 12.

Key Estimate - Onerous contract provision (Maintenance and lease obligations)

The Group sells plantation investments under contracts which commit the Group to provide plantation maintenance services as well as access to plantation land over the life of the project in return for lease and management fees. Where an investor elects to defer the payment of these fees, the Group will instead receive a proportion of the gross harvest proceeds from the investors' plantations.

For the purposes of calculating the provision, the expected gross harvest proceeds from the investors' plantations as well as forecast maintenance and lease costs is determined using key estimates for biological asset valuation for the investors' plantations. The key assumptions used in calculating the future revenues, maintenance costs and their present day value are set out in Note 11.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Key Estimate - Put options

The Group entered into sales transactions in prior years with select sophisticated growers and an institutional investor. A term included in these contracts is the option held by these investors to return these trees to the Group at a predetermined date and exercise price. This has been disclosed in Note 20.

In respect of options issued to an institutional investor, the Group has recognised the instrument as a derivative financial liability carried at fair value through profit or loss. As the underlying asset of the put option is not a quoted security, the fair value of the derivative financial liability is approximated by deducting the fair value of the underlying asset (biological assets) from the exercise price of the put option at balance date while taking into consideration the time value of the option and expected exercise date.

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

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2017. The Director have not early adopted any of these new or amended standards or interpretations. The Director have not yet fully assessed the impact of these new or amended standards (to the extent relevant to the Group) and interpretations.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2017, outlined in the table below:

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

**NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15 and relevant amending standards	<i>Revenue from Contracts with Customers</i>	<p>AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue - Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:</p> <ul style="list-style-type: none"> - Step 1: Identify the contract(s) with a customer - Step 2: Identify the performance obligations in the contract - Step 3: Determine the transaction price - Step 4: Allocate the transaction price to the performance obligations in the contract - Step 5: Recognise the revenue when (or as) the entity satisfies a performance obligation 	1 January 2018	1 July 2018
AASB 9 and relevant amending standards	<i>Financial Instruments</i>	<p>AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis that their contractual cash flows and business model under which debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduced an accounting mismatch. Equity instruments are generally measured at FVTPL. However entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including embedded derivative separation rules and the criteria using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements of hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting with address inconsistencies in the hedge accounting model in AASB 139.</p>	1 January 2018	1 July 2018

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

**NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

AASB 2016 - 5	<i>Amendments to Australian Accounting Standards - Classification and Measurement of Share Based Payment Transactions</i>	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements in accounting for: - The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments - Share-based payment transactions with a net settlement feature for withholding tax obligations - A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	1 January 2018	1 July 2018
AASB 2016 - 1	<i>Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses</i>	This Standard makes amendments to AASB 112 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
AASB 2016 - 2	<i>Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107</i>	The amendments to AASB 107 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	1 January 2017	1 July 2017
AASB 2017 - 2	<i>Amendments to Australian Accounting Standards - Further Annual Improvements 2014 - 2016 Cycle</i>	This Standard clarifies the scope of AASB 12 Disclosure of Interests in Other Entities by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.	1 January 2017	1 July 2017
AASB 2014 - 10	<i>Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.	1 January 2018	1 July 2018
AASB Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>	The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	1 January 2018	1 July 2018

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

**NOTE 1: CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

IFRIC 23 (Australian-equivalent Interpretation not yet issued)	<i>Uncertainty over Income Tax Treatments</i>	The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically address the following: - Whether an entity considers uncertain tax treatments separately - The assumptions an entity makes about the examination of tax treatments by tax authorities - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates - How an entity considers changes in facts and circumstances.	1 January 2019	1 July 2019
AASB 16	<i>Leases</i>	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use of the underlying asset during the lease term (i.e the right-of-use-asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of use-asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principles as in AASB 117 and distinguish between two types of leases: operating and finance leases.	1 January 2019	1 July 2019

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 2: REVENUE

	NOTE	2017 \$'000	2016 \$'000
Revenue			
Revenue from services		52,923	150,132
Revenue from land sales		109	8,094
Revenue from product		39,289	29,854
Interest received		739	1,198
Interest on grower loans		4,347	2,425
Total sales revenue		<u>97,407</u>	<u>191,703</u>
Other income and expense			
Profit / (loss) on disposal of plant and equipment		11	(8)
Fair value movement of biological assets - Quintis interest	11	(307,371)	76,892
Gain on settlement of trade debtor		153	206
Total other (expense) / income		<u>(307,207)</u>	<u>77,090</u>

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 3: (LOSS) / PROFIT FOR THE YEAR

	NOTE	2017 \$'000	2016 \$'000
The (loss) / profit from ordinary operations before income tax includes the following items of expenditure whose disclosure is relevant in explaining the financial performance of the Group:			
Cost of sales - product and land		36,240	15,676
Research and development expenses		2,837	940
Borrowing and finance charges - external		30,970	30,397
Depreciation on non-current assets		11,283	9,376
Amortisation on non-current assets		2,046	1,787
Total depreciation and amortisation	10	13,329	11,163
Loss on revaluation of land and buildings	10	11,331	6,661
Operating lease rental		5,193	4,702
Bad and doubtful debts expense / (recouped)		13,721	(778)
Share based payments		(280)	675
Impairment of deferred lease and management fees	12	29,886	3,699
Employee benefits - superannuation		2,278	1,829
Realised foreign exchange (gain) / loss		(2,018)	(1,104)
Unrealised foreign exchange (gain) / loss (i)		7,013	(4,759)
Loss on remeasurement of liability carried at amortised cost		3,512	-
Provision for onerous contracts	16, 18	27,818	-

- (i) Unrealised foreign exchange (gain) / loss relates to the conversion of the Group's US Dollar denominated financial assets and liabilities. This (gain) / loss does not include the foreign exchange movement impact on the revaluation of the Group's biological assets (Note 11), which uses a US dollar denominated oil price. The impact on the current year revaluation of biological assets was a loss of \$27.687m compared to a gain of \$23.845m in 2016.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 4: INCOME TAX

(a) Components of tax expense

	2017 \$'000	2016 \$'000
Current income tax:		
Current tax	-	3,391
(Over) / under provision in respect of prior periods	379	(400)
Deferred tax:		
Originating and reversing temporary differences	(179,774)	29,664
(Over) / under provision in respect of prior periods	310	-
Income tax (benefit)/expense recognised in the current year	<u>(179,085)</u>	<u>32,655</u>

(b) Income tax expense

The prima facie tax payable on the operating profit / (loss) is reconciled to the income tax provided in the accounts as follows:

Prima facie income tax from ordinary activities at 30% (2016: 30%)	(178,756)	36,840
Adjusted for the following tax effect:		
Tax losses not recognised	2,811	1,514
Fair value loss on contingent consideration not deductible	(7,307)	(778)
Impairment of goodwill	9,687	-
(Over) / under provision of prior year	689	(400)
Gain on acquisition of controlling interest not assessable	-	(5,153)
Difference in tax rate in foreign operations	(6,144)	-
Other	(65)	632
Income tax (benefit) / expense recognised in profit and loss	<u>(179,085)</u>	<u>32,655</u>

Applicable weighted average effective tax rates	30%	27%
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(c) Tax effects relating to each component of other comprehensive income

	2017			2016		
	Before tax amount \$'000	Tax \$'000	Net of tax amount \$'000	Before tax amount \$'000	Tax \$'000	Net of tax amount \$'000
Revaluation of land and buildings	(5,916)	1,775	(4,141)	(2,552)	765	(1,787)
	<u>(5,916)</u>	<u>1,775</u>	<u>(4,141)</u>	<u>(2,552)</u>	<u>765</u>	<u>(1,787)</u>

(d) Tax assets and liabilities

	2017 \$'000	2016 \$'000
CURRENT		
Current tax liabilities	<u>408</u>	<u>7,333</u>

Tax consolidation

Details of the Group's tax consolidation group are discussed in Note 1(m).

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 4: INCOME TAX (CONTINUED)

NON CURRENT

	Opening balance	Charged to income	Charged directly to equity	Acquisition	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
2017					
<i>Deferred tax liabilities</i>					
Sandalwood tree unrealised gain	139,079	(98,871)	-	-	40,208
Deferred income accrual	32,527	(182)	-	-	32,345
Plant & equipment - tax depreciation allowance	8,136	2,341	-	-	10,477
Unrealised foreign exchange	-	2,075	-	-	2,075
Revaluation adjustments	3,040	(3,040)	-	-	-
Intangible assets	43,330	(43,330)	-	-	-
	226,112	(141,007)	-	-	85,105
Less: closing deferred tax assets	(27,118)	(38,457)	(1,775)	-	(67,350)
Net deferred tax liabilities	198,994	(179,464)	(1,775)	-	17,755
<i>Deferred tax assets</i>					
Tax losses	-	37,706	-	-	37,706
Provisions and accruals	3,304	2,127	-	-	5,431
Taxable unearned MIS income	3,258	3,357	-	-	6,615
Unrealised foreign exchange	17,567	(17,567)	-	-	-
Transaction costs on equity issue	991	(330)	-	-	661
Revaluation adjustments	1,998	98	1,775	-	3,871
Onerous contracts	-	8,851	-	-	8,851
Provision for doubtful debts	-	4,215	-	-	4,215
Balance at 30 June 2017	27,118	38,457	1,775	-	67,350

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 4: INCOME TAX (CONTINUED)

	Opening balance	Charged to income	Charged directly to equity	Acquisition	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
2016					
<i>Deferred tax liabilities</i>					
Sandalwood tree unrealised gain	113,688	25,391	-	-	139,079
Deferred income accrual	28,109	4,418	-	-	32,527
Plant & equipment - tax depreciation allowance	6,520	1,616	-	-	8,136
Unrealised foreign exchange	7	(7)	-	-	-
Revaluation adjustments	3,912	-	(872)	-	3,040
Intangible assets	-	-	-	43,330	43,330
	152,236	31,418	(872)	43,330	226,112
Less: closing deferred tax assets	(24,869)	(1,754)	(495)	-	(27,118)
Net deferred tax liabilities	127,367	29,664	(1,367)	43,330	198,994
<i>Deferred tax assets</i>					
Provisions and accruals	2,860	444	-	-	3,304
Taxable unearned MIS income	5,130	(1,872)	-	-	3,258
Unrealised foreign exchange	15,858	1,709	-	-	17,567
Transaction costs on equity issue	496	-	495	-	991
Transaction costs on debt raising	525	(525)	-	-	-
Revaluation adjustments	-	1,998	-	-	1,998
Balance at 30 June 2016	24,869	1,754	495	-	27,118

At 30 June 2017, the Group had no tax losses in Australia that were available for offsetting against future taxable profits of the companies in which the losses arise (2016: nil) which has not been recognised by the Group.

The Group has tax losses from and following the acquisition of Santalis and Santalis Healthcare Corporation in prior year which are based in the tax jurisdiction of the United States of America. Deferred tax assets have not been recognised in respect of these losses as there is no evidence of recoverability in the near future.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 5: TRADE AND OTHER RECEIVABLES (CURRENT)

	2017 \$'000	2016 \$'000
Trade debtors	34,341	64,618
Allowance account for impairment of trade debtors	(13,685)	(332)
	<u>20,656</u>	<u>64,286</u>
Loans to growers	11,895	15,706
Loans to growers (b)	5,414	-
Allowance account for impairment of grower loans	(367)	-
Bonds and deposits	331	325
Prepayments	4,140	4,780
	<u>21,413</u>	<u>20,811</u>
Total trade and other receivables	<u>42,069</u>	<u>85,097</u>

- (a) Aggregate amounts payable by related parties included in loans to growers:

Director related	<u>-</u>	<u>1,581</u>
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- (b) The loan book relates to the part sale of the loan book settled in August 2016. Under the sale agreement, Quintis is required to repurchase any defaulted grower loans of more than 90 days, thus Quintis retain the risks of the underlying cash flows. As the acquirer of the loan book has a full recourse to the Group, the loan book facility continues to be recognised by the Group. A separate liability, equal to the face value of the grower loans sold, has been recognised. When a grower loan is repaid, the Group derecognises the grower loans receivable and reduce the liability. Refer to Note 19 for more details.

When a grower defaults and the loan is repurchased, the Group makes a payment to the acquirer for the face value of the grower loan and retains the established Sandalwood trees which continue to act as security over the receivable.

- (c) The terms and conditions relating to the above financial instruments are as follows:
- (i) Trade debtors are non-interest bearing and generally of terms between 30 days and 12 months.
 - (ii) Details of the terms and conditions of related party receivables are set out in Note 39.
 - (iii) Loans to growers and trade debtors are secured by the right, title and interest in the Sandalwood trees until the loan and any outstanding accrued interest are discharged.
- (d) Ageing of receivables past due but not impaired:

	2017 \$'000	2016 \$'000
60 - 90 days	69	196
90 - 120+ days	15,209	28,436
Total	<u>15,278</u>	<u>28,632</u>

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 5: TRADE AND OTHER RECEIVABLES (CURRENT) (CONTINUED)

(e) Movement in the allowance accounts for impairment of receivables (current):

	2017	2016
	\$'000	\$'000
Balance at the beginning of the year	332	1,171
Impairment losses recognised on receivables	13,353	300
Amounts written off as uncollectible / (recouped)	-	(60)
Amounts recovered during the year	-	(2)
Impaired losses reversed	-	(1,077)
Balance at the end of the year	<u>13,685</u>	<u>332</u>

In determining the recoverability of a trade receivable, the Group considers the change in credit quality of the trade receivable from the date the credit was initially granted up to the reporting date.

The Group also considers the underlying value of the security held by the company against the debtor which could be recovered to offset the debtor balance. The security will often be the value of the tree lots that relates to the debtor balance.

In the current year, impairment losses on trade receivables were recognised during the year as a result of a decline in the fair value of the biological assets' over which the trade debtors were secured (refer to Note 11).

The basis for estimating the fair value of the grower tree lots is exactly the same as for trees owned by the Group. The estimates used in calculating the expected future cash flows are set out in Note 11.

(f) Credit risk

Management of the Group's trade receivable credit risk is set out in Note 32. In determining the recoverability of a trade receivable, the Group considers the change in credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group also considers the underlying value of the security held by the company against the debtor which could be recovered to offset the debtor balance. During the year the total loan balance of growers who defaulted on their payment terms were more than \$11.000m (2016: \$500,000). The majority of this includes two existing SIO investors who are in default of their payment obligations under existing loan agreements, one of whom is Frank Wilson, the Company's former Managing Director. Refer to Note 36(e) for details. While the Group noted a deterioration in the credit quality of these debtors, there was no change to the expected credit loss as there was no material change in quality of the collateral.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 6: INVENTORIES

	2017 \$'000	2016 \$'000
Land held for resale (i)	-	2,688
Finished goods - at net realisable value	16,544	5,689
Work in progress - at cost	611	3,707
Seedlings at cost	190	251
Seed stock	555	391
Harvested trees - at net realisable value	12,653	8,270
External MIS grower interest - harvested trees - at net realisable value	3,657	-
Raw materials - at cost	1,695	4,149
Less: Provision for obsolete stock	(226)	(160)
	<u>35,679</u>	<u>24,985</u>

- (i) Land is considered current if it is expected to be sold, in the ordinary course of business, within the next 12 months.

During the year, a write down of \$2.886m (2016: \$0.325m) was recognised as an expense for inventories carried at net realisable value. This is recognised in raw materials and consumables used.

NOTE 7: OTHER FINANCIAL ASSETS (CURRENT)

	2017 \$'000	2016 \$'000
Cash deposit - MIS custodian accounts	<u>746</u>	<u>2,904</u>
Cash deposit - MIS Custodian Accounts consists of 50% of establishment fees on new MIS sales relating to the following years:		
TFS Sandalwood Project 2015	-	37
TFS Sandalwood Project 2016	<u>746</u>	<u>2,867</u>
	<u>746</u>	<u>2,904</u>

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.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 8: TRADE AND OTHER RECEIVABLES (NON CURRENT)

	NOTE	2017 \$'000	2016 \$'000
Loans to growers		48,660	54,373
Loans to growers (b)	5	11,226	-
		<u>59,886</u>	<u>54,373</u>
Other receivables		181	181
Total receivables		<u>60,067</u>	<u>54,554</u>
(a) Loan to growers due for repayment as follows:			
- Later than one year but not later than five years		46,417	45,526
- Due later than five years		13,469	8,847
		<u>59,886</u>	<u>54,373</u>

(b) The loan book relates to the part sale of the loan book that occurred in the current year. As the acquirer of the loan book has a full recourse to the Group, the loan book facility continues to be recognised by the Group. The loan book relates to the part sale of the loan book settled in August and December 2016. Under the sale agreement, Quintis is required to repurchase any defaulted grower loans of more than 90 days, thus Quintis retain the risks of the underlying cash flows. As the acquirer of the loan book has a full recourse to the Group, the loan book facility continues to be recognised by the Group. A separate liability, equal to the face value of the grower loans sold, has been recognised. When a grower loan is repaid, the Group derecognises the grower loans receivable and reduce the liability. Refer to Note 19 for more details. When a grower defaults and the loan is repurchased, the Group makes a payment to the acquirer for the face value of the grower loan and retains the established Sandalwood trees which continue to act as security over the receivable.

(c) Aggregate amounts payable by related parties included in loans to growers:

	2017 \$'000	2016 \$'000
Director related	-	9,755
	<u>-</u>	<u>9,755</u>

(d) Refer to Note 32 for details of the credit quality of non-current trade receivables.

In determining the recoverability of loans to growers, the Group considers the change in credit quality of the loans from the date the credit was initially granted up to the reporting date. The Group also considers the underlying value of the security held by the company against the grower which could be recovered to offset the growers' loan balance. The security will often be the value of the tree lots that related to the debtor balance. At balance date \$1,250,420 (2016: \$313,250) of grower loan repayments were in arrears, but not classified as impaired, due to the underlying tree value (security) being higher than the amounts in arrears.

The basis for estimating the fair value of the grower tree lots is exactly the same as for trees owned by the related entity of the Group. As required under the Accounting Standards the Directors of the related entity make an estimate as to the fair value of the standing Sandalwood trees held by the related entity. The fair value is calculated as the net present value of expected future cash flows. The estimates used in calculating the expected future cashflows are set out in Note 11.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 9: OTHER FINANCIAL ASSETS (NON CURRENT)

	2017 \$'000	2016 \$'000
Cash deposit - First loss account (a)	1,690	1,688
Cash deposit - Bank guarantee facility	6,291	3,491
Cash deposit - MIS custodian accounts (b)	2,714	2,674
Other	20	20
	<u>10,715</u>	<u>7,873</u>

(a) See Note 35: Contingent Liabilities

(b) Cash deposit - MIS Custodian Accounts consists of the following:

TFS Sandalwood Project 2012 - Upfront annual fee and rent	810	802
TFS Sandalwood Project 2013 - Upfront annual fee and rent	414	407
TFS Sandalwood Project 2014 - Upfront annual fee and rent	558	548
TFS Sandalwood Project 2015 - Upfront annual fee and rent	500	492
TFS Sandalwood Project 2016 - Upfront annual fee and rent	432	425
	<u>2,714</u>	<u>2,674</u>

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 12 or 14 of the applicable project. Prior to lease and management services being provided, an offsetting amount is recognised as unearned income (refer Note 21).

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	NOTE	2017 \$'000	2016 \$'000
Leasehold improvements and Plant & Equipment - cost (*)			
Gross carrying amount		148,874	128,533
Provision for impairment of fixed assets	13	(26,699)	-
Less: Accumulated depreciation		<u>(54,105)</u>	<u>(42,295)</u>
Net carrying amount		<u>68,070</u>	<u>86,238</u>
Land & Buildings - at fair value (d)			
Gross carrying amount - (**)		80,920	87,112
Less: Accumulated depreciation - (**)		<u>(252)</u>	<u>(225)</u>
Net carrying amount		<u>80,668</u>	<u>86,887</u>
Total property, plant & equipment		<u>148,738</u>	<u>173,125</u>

(*) Water rights and land preparation costs capitalised with a carrying value which totalled \$11.414m at 30 June 2016 have been reclassified from Other Assets (non-current) to Property, Plant and Equipment as the nature of these assets are consistent with those held as property, plant and equipment.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 10: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(**) Accumulated depreciation for land and buildings as at 1 July 2015 of \$1.400m has been reclassified and offset against the gross carrying value of land and buildings with no impact on the net carrying value of land and buildings. The reclassification ensures the gross carrying amount reflects the offsetting impact of revaluations and depreciation charge recognised.

(a) Movements in the net carrying amount for each class of property, plant & equipment between the beginning and the end of the current financial period.

	2017 \$'000	2016 \$'000
<i>Land & Buildings</i>		
Carrying amount at the beginning of the year	86,887	83,616
Additions	9,632	8,658
Transfer from inventory	1,648	4,157
Revaluation (i)	(17,247)	(9,319)
Depreciation charge for the year	(252)	(225)
	<u>80,668</u>	<u>86,887</u>

<i>Leasehold improvements</i>		
Carrying amount at the beginning of the year	194	200
Additions	61	12
Depreciation charge for the year	(21)	(18)
Carrying amount at the end of the year	<u>234</u>	<u>194</u>

	2017 \$'000	2016 \$'000
<i>Other plant & equipment</i>		
Carrying amount at the beginning of the year	86,048	74,292
Additions	21,302	22,148
Depreciation charge for the year	(11,789)	(9,979)
Disposals	(1,026)	(413)
Provision for impairment of fixed assets	(26,699)	-
Carrying amount at the end of the year	<u>67,836</u>	<u>86,048</u>

(i) The revaluation resulted in the recognition of a loss amounting to \$17.247m (2016: \$9.319m), of which, \$11.331m (2016: \$6.661m) (pre-tax) was recognised in the profit and loss and \$5.916m (2016: 2.658m) (pre-tax) in the asset revaluation reserve.

(b) If land & buildings were stated at historical cost, amounts would be:

Cost	87,937	83,562
Accumulated depreciation and impairment ^	(1,877)	(1,625)
Carrying amount at the beginning of the year	<u>86,060</u>	<u>81,937</u>

^ Accumulated depreciation and impairment was netted against cost in prior year. This has been restated to reflect accumulated depreciation and impairment if land and buildings were stated at historical cost. This did not result in a change to the carrying amount of land and buildings disclosed.

(c) Plant & equipment in the course of construction

Carrying amount of plant & equipment in the course of construction	<u>-</u>	<u>40</u>
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NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 10: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- (d) The Group's freehold land and buildings are stated at fair value less any subsequent accumulated depreciation and impairment.

The fair value measurements of the Group's freehold land and buildings as at 30 June 2017 was based on an independent market appraisal. A market appraisal covering 71% of the Group's properties was obtained in the prior year and the remaining properties were independently appraised by the same independent valuer in the current financial year. An accredited external independent valuer (Colliers) was also engaged in FY17 to perform an annual evaluation of market conditions for the Group's properties and to advise whether previously adopted external valuations continue to reflect fair value. The independent valuation was adjusted using a DCF model to reflect any encumbrances on specific properties. The market appraisal was performed by CBRE, a Licensed Real Estate Agent, with the appropriate qualifications and recent experience to fair value properties in the relevant locations. Properties were valued at their highest and best use on an unencumbered basis using a direct comparison approach which involves the direct comparison of comparable sales on a rate per hectare of land area. Where there are buildings on the property, the direct comparison approach has been completed on a land and structures basis. There were no significant changes in market trends to suggest a change to CBRE's valuation from the prior year.

All fair value estimates for land and buildings are included in level 3 of the fair value hierarchy. The following information shows the key inputs used in the valuation model for measuring fair value of freehold land.

Significant Observable Inputs

- (i) Annual lease fees per annum between \$1,500 p/ha to \$2,572 p/ha based on the price disclosed in the investment plantation product disclosure statement (2016: 1,500 p/ha to \$2,498 p/ha).
- (ii) Annual growth rate applied to lease fees between 0% to 3% per year based on the price disclosed in the investment plantation product disclosure statement (2016: 0% - 3% per year).

Significant Unobservable Inputs

- (i) Estimated price per hectare based on current year sales of comparable lots of land in the same area (location and size) of \$10,000 to \$30,000 (2016: \$10,000 to \$30,000).
- (ii) Discount rate based on a market-derived rental yield based on the state where the property is located. The market rental yield applied was between 1.80% to 6.27% (2016: 0.27% to 4.23%).
- (iii) The land will become unencumbered when the trees are harvested within 14 to 16 years of being planted. The weighted average year of harvest is 15.4 years (June 2016: 15.6 years).

The fair value measurement of freehold land is sensitive to changes in the unobservable inputs which may result in a significantly higher or lower fair value measurement. The following tables demonstrate the sensitivity of the property values to a reasonably possible change in significant unobservable inputs, with all other variables held constant (increase /(decrease) in value):

	2017 \$'000	2016 \$'000
- increase in estimated price per hectare by 10%	6,198	4,848
- decrease in estimated price per hectare by 10%	(6,198)	(4,848)

- (e) BTA Institutional Services Australia Limited (the security trustee for the 8.75% Senior Secured Note holders) has a fixed and floating security over all the assets of the Group, which includes a first registered mortgage over freehold properties owned by the Group. The freehold land is also subject to caveats which were lodged by the Group on behalf of Sandalwood project investors. These caveats protect the growers' leasehold interest in project land. The Group has registered collateral leases over the freehold land which further protects the growers' interest in project land.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 11: BIOLOGICAL ASSETS

	2017 \$'000	2017 \$'000	2017 \$'000
	QUINTIS INTEREST (i) (ii)	EXTERNAL MIS GROWER INTEREST (iii)	TOTAL
Sandalwood plantation at cost:			
Opening balance	275,466	54,618	330,084
Additions / (disposal) (iv)	20,858	798	21,656
Plantation re-acquired (v)	31,499	-	31,499
Less: Harvested trees transferred to inventory	(23,501)	-	(23,501)
Less: Harvest of grower interest trees	-	(1,247)	(1,247)
	304,322	54,169	358,491
Add: Fair value adjustment to Sandalwood plantation:			
Opening balance	347,691	93,433	441,124
Fair value (loss)	(307,371)	(45,572)	(352,943)
Additions / (disposals)	-	3,526	3,526
Less: Harvested trees transferred to inventory	(1,836)	-	(1,836)
Less: Harvested grower interest trees	-	(6,259)	(6,259)
	38,484	45,128	83,612
Total Biological Assets	342,806	99,297	442,103
Classified as current (vi)	2,871	1,649	4,520
Classified as non-current (vi)	339,935	97,648	437,583

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 11: BIOLOGICAL ASSETS (CONTINUED)

	2016 \$'000	2016 \$'000	2016 \$'000
	QUINTIS INTEREST (i) (ii)	EXTERNAL MIS GROWER INTEREST (iii)	TOTAL
Sandalwood plantation at cost:			
Opening balance	242,605	53,821	296,426
Additions / (disposal) (iv)	32,477	798	33,275
Plantation re-acquired	607	-	607
Less: Harvested trees transferred to inventory	(223)	-	(223)
	<u>275,466</u>	<u>54,619</u>	<u>330,085</u>
Add: Fair value adjustment to Sandalwood plantation:			
Opening balance	278,588	66,217	344,805
Fair value gain / (loss)	76,892	21,695	98,587
Additions / (disposals)	-	5,520	5,520
Less: Harvested trees transferred to inventory	(7,789)	-	(7,789)
	<u>347,691</u>	<u>93,432</u>	<u>441,123</u>
Total Biological Assets	<u>623,157</u>	<u>148,051</u>	<u>771,208</u>
Classified as current (vi)	22,007	6,240	28,247
Classified as non-current (vi)	601,150	141,811	742,961

- (i) Biological assets are encumbered to the extent set out in Note 10.
- (ii) This represents plantations owned by Quintis and Quintis' direct interest within MIS.
- (iii) The External MIS grower interest represents the third party grower interest in the biological assets in respect of certain MIS projects which are consolidated for accounting purposes. The Group has a restricted interest in these assets and the proceeds from the monetisation of these assets will be used to settle the external MIS grower liabilities detailed at Notes 14 and 19.
- (iv) Additions during the current year include the acquisition of trees from the Buy-back Offer, Arwon loan foreclosures and trees acquired from external investors in accordance with our strategy to acquire mature trees.
- (v) Plantation re-acquired relate to trees reclaimed by the Group as a result of an institutional investor failing to settle its establishment fees owing to the Group for the plantation purchase in the Northern Territory. The carrying amount of the receivable was \$27.500m. Associated with this transaction is the transfer of deferred lease and management fees that was reclassified to biological assets. Refer to Note 12.
- (vi) Biological assets classified as current are expected to be harvested, processed and monetised within 12 months and non current after 12 months.

	2017 No.	2016 No.
Physical quantities		
Physical quantity of Indian Sandalwood trees - Quintis interest	1,395,890	1,146,656
Physical quantity of Indian Sandalwood trees - External MIS grower interest	262,962	270,963

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 11: BIOLOGICAL ASSETS (CONTINUED)

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.

During the year ended 30 June 2017, the biological assets of the Group experienced a \$307.371m loss on revaluation (excluding the external MIS grower interest). This has been driven primarily by changes in significant unobservable inputs following the Group's completion of its fourth plantation harvest and ongoing assessment of harvest results and biological assumptions applied in the Directors' valuation.

Key changes to estimates applied include a reduction in forecast heartwood production, decrease in projected oil content, an increase in processing costs as a result of lower volumes being processed, as well as an upward adjustment to discount rates applied to reflect an increase in market risk.

The fair value measurement for biological assets of \$442.103m, (2016: \$771.208m) has been categorised as Level 3 in the fair value hierarchy.

Valuation Technique

Discounted Cash Flows:

The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates until harvest. The expected net cash flows are discounted using a risk-adjusted discount rate.

Significant Observable Market Inputs

The US Dollar, Australian Dollar (AUD) exchange rate used is used consistently throughout the valuation model at 1.302 AUD, being the spot exchange rate at balance date (2016: 1.347 AUD).

Significant Unobservable Inputs

- (i) The trees will be harvested within 14 to 16 years of being planted. The weighted average year of harvest is 15.4 years (2016: 15.6 years).
- (ii) Forecast of heartwood production at weighted average of 14.6kg (2016: 19.6kg) per Sandalwood tree at a 25% moisture content. The forecast heartwood production of each plantation vintage ranges from 4.3kg to 21.2kg per Sandalwood tree.
- (iii) Projected oil content from the heartwood of 3.2% (2016: 3.7%) from forecast heartwood at a moisture content of 25%.
- (iv) The price of Sandalwood oil is determined with due consideration to market transactions and industry projections, arriving at an estimate of \$2,800 USD/kg (2016: \$2,800 USD/kg) and not inflated.
- (v) The costs consist of growing, harvesting, processing and marketing and sales cost, including:
 - Harvesting and processing (oil extraction) costs, estimated at \$16,000 (2016: \$16,000) per hectare for harvesting and a tiered processing cost \$207 - \$558 (2016: \$207) per litre of oil, subject to estimated volume to be processed;
 - Marketing and sales costs, estimated at 5% (2016: 5%) of proceeds; and
 - Harvesting and processing (oil extraction costs) are held constant in real terms with an annual inflation rate of 3.0% (2016: 3.0%).
- (vi) The pre-tax average real rate at which the net cash flows have been discounted range between:
 - 17% (2016: 14%) for trees aged 0 to 5 years;
 - 16% (2016: 13%) for trees aged 6 to 10 years; and
 - 15% (2016: 12%) for trees aged 11 years to harvest age.
- (vii) Cash flows exclude income taxes.

The fair value measurement of biological assets is sensitive to changes in the unobservable inputs which may result in a significantly higher or lower fair value measurement:

- An increase in heartwood production, oil content, Sandalwood oil price would result in a higher fair value measurement.
- A decrease in heartwood production, oil content, Sandalwood oil price would result in a lower fair value measurement.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 11: BIOLOGICAL ASSETS (CONTINUED)

- An increase in harvesting, processing, marketing or plantation maintenance costs would result in a lower fair value measurement.
- A decrease in harvesting, processing, marketing or plantation maintenance costs would result in a higher fair value measurement.
- A deferral in harvest year may result in higher heartwood production as a more mature tree is harvested, which may result in a higher fair value measurement.

Sensitivity analysis

(i) Foreign Currency Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in USD exchange rate, with all other variables held constant:

	2017 \$'000		2016 \$'000	
	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST
Increase / (decrease) in profit after tax				
- Improvement in AUD to USD by 10% (2016: 10%)	(30,723)	(8,981)	(48,354)	(12,393)
- Decline in AUD to USD by 10% (2016: 10%)	30,723	8,981	48,354	12,393

(ii) Price Risk Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in price, with all other variables held constant:

	2017 \$'000		2016 \$'000	
	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST
Increase / (decrease) in profit after tax				
- Increase in Indian Sandalwood oil price by \$100/kg (2016: \$100/kg)	10,973	3,207	17,269	4,426
- Decrease in Indian Sandalwood oil price by \$100/kg (2016: \$100/kg)	(10,973)	(3,207)	(17,269)	(4,426)

(iii) Oil Yield Risk Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in oil content rate, with all other variables held constant:

	2017 \$'000		2016 \$'000	
	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST
Increase / (decrease) in profit after tax				
- Increase in oil content by 10% (2016: 10%)	28,846	8,136	45,700	11,713
- Decrease in oil content by 10% (2016: 10%)	(28,846)	(8,136)	(45,700)	(11,713)

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 11: BIOLOGICAL ASSETS (CONTINUED)

(iv) Discount Rate Risk Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in discount rate, with all other variables held constant:

	2017 \$'000		2016 \$'000	
	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST
Increase / (decrease) in profit after tax				
- Increase in discount rate by 2% (2016: 2%)	(40,328)	(5,317)	(68,259)	(9,506)
- Decrease in discount rate by 2% (2016: 2%)	49,689	5,858	84,615	10,690

(v) Heartwood Yield Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in heartwood yield rate, with all other variables held constant:

	2017 \$'000		2016** \$'000	
	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST
Increase / (decrease) in profit after tax				
- Increase in heartwood yield by 30% (2016: 30%)	86,279	24,407	144,281	35,139
- Decrease in heartwood yield by 30% (2016: 30%)	(86,349)	(24,407)	(144,297)	(35,139)

** Sensitivity analysis for the year ended 30 June 2016 reflected in the 2016 Annual Report represents the impact of changes in oil content yield from the heartwood. This has been separately disclosed as oil yield sensitivity analysis in these financial statements. Comparative information for heartwood yield sensitivity analysis reflects the impact of changes in the kilograms of heartwood yield.

(vi) Processing Costs Sensitivity Analysis

The following tables demonstrate the sensitivity of the fair value measurement of biological assets to a reasonably possible change in processing costs, with all other variables held constant:

	2017 \$'000		2016 \$'000	
	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST	QUINTIS INTEREST	EXTERNAL MIS GROWER INTEREST
Increase / (decrease) in profit after tax				
- Increase in processing costs by 10% (2016: 10%)	(1,877)	(845)	(2,800)	(680)
- Decrease in processing costs by 10% (2016: 10%)	1,877	845	2,800	680

Project Risk

The Group is exposed to the following risks relating to its Sandalwood plantations.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 11: BIOLOGICAL ASSETS (CONTINUED)

(i) Supply and Demand Risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of Sandalwood. When possible, the Group intends to manage this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis for projected harvest volumes and pricing.

(ii) Climate and Other Risks

The Group's Sandalwood plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The Group is also insured against certain natural disasters such as fire and wind damage. The insured value of the plantation under the Group's existing insurance policy is less than the fair value of these plantations, but greater than the cost of re-establishing the plantation.

(iii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group has a natural hedge of this exposure in place by maintaining foreign currency denominated debt that partially offsets the currency exposure described.

Commitments

At 30 June 2017, the Group had commitments to establish Sandalwood plantations for \$5.588m (2016: \$27.290m).

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 12: INTANGIBLE ASSETS

	Supply agreements \$'000	Goodwill \$'000	Deferred lease and management fees \$'000	Other (a) \$'000	Total \$'000
Cost					
At 1 July 2015	478	20,205	112,114	-	132,797
Acquisition of subsidiary	-	12,086	-	124,019	136,105
Recognition of deferred fees	-	-	21,970	-	21,970
Deferred fees realised upon tree buy back scheme	-	-	(2,038)	-	(2,038)
Deferred fees realised upon harvest	-	-	(422)	-	(422)
At 30 June 2016	478	32,291	131,624	124,019	288,412
Cost					
At 1 July 2016	478	32,291	131,624	124,019	288,412
Recognition of deferred fees	-	-	31,685	-	31,685
Deferred fees realised upon tree buy back scheme	-	-	(125)	-	(125)
Deferred fees realised upon harvest	-	-	(946)	-	(946)
Deferred fees relating to plantation reclaimed by Group	-	-	(2,417)	-	(2,417)
At 30 June 2017	478	32,291	159,821	124,019	316,609
Amortisation and impairment					
At 1 July 2015	-	-	(18,418)	-	(18,418)
Amortisation	-	-	-	(1,077)	(1,077)
Impairment	-	-	(3,699)	-	(3,699)
At 30 June 2016	-	-	(22,117)	(1,077)	(23,194)
Amortisation and impairment					
At 1 July 2016	-	-	(22,117)	(1,077)	(23,194)
Amortisation	(478)	-	-	(470)	(948)
Impairment	-	(32,291)	(29,886)	(122,407)	(184,584)
At 30 June 2017	(478)	(32,291)	(52,003)	(123,954)	(208,726)
Net book value					
At 30 June 2016	478	32,291	109,507	122,942	265,218
At 30 June 2017	-	-	107,818	65	107,883

(a) Other intangible assets relate to royalty agreements and in-progress research and development.

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.

Refer to Note 13 for details of impairment charges recognised during the year.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: IMPAIRMENT OF NON CURRENT ASSETS CARRIED AT AMORTISED COST

The carrying amount of the Group's non-current assets carried at amortised cost are reviewed at each reporting date to determine whether there is any indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made.

The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2017, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of a number of non-current assets including deferred lease and management fees, other plant and equipment, in-process research and development and goodwill.

Deferred lease and management fees

Deferred lease and management fees are included in the plantation management segment of the Group. Impairment is recognised when the total deferred lease and management fees exceeds the sum of the net present value of future revenues to be received by the Group at harvest date.

During the year, an impairment charge of \$29.886m has been recognised in the statement of profit or loss (2016: \$3.699m). The carrying value of deferred lease and management fees as at 30 June 2017 therefore reflects the assets' recoverable amount which has been determined based on fair value less cost of disposal ("FVLCD") calculations which is classified as level 3 on the fair value hierarchy. The asset's FVLCD is calculated using a DCF model which incorporates the expected gross harvest proceeds from the growers' trees and the Group's proportional interest therein. The expected gross harvest proceeds from the investors' plantation is determined using key estimates for biological asset valuation for the investors' plantations, including discount rates applied to the cash flow projections.

The write down of deferred lease and management fees during year was driven by a decline in the expected gross harvest proceeds from the investors' plantations. Refer to Note 11 for details of changes in estimates applied.

Other plant and equipment, in-process research and development and goodwill

Other plant and equipment, in-process research and development and goodwill are allocated to the plantation management, Sandalwood product and pharmaceutical CGU's for impairment assessment. Impairment losses recognised in respect of a CGU are first allocated to goodwill and then allocated to reduce the carrying amount of other assets in the CGU on a pro-rata basis. The plantation management, Sandalwood product and pharmaceutical CGU are also the Group's operating segments.

(a) Recoverable amount

The recoverable amount of a CGU is the greater of its FVLCD (based on level 3 fair value hierarchy) and its value-in-use ("VIU"), using the CGU's estimated future cash flows (as described below) discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash flows.

The Directors have also given due consideration to the implied fair values arising from the ongoing recapitalisation negotiations when determining the recoverable amount of the individual CGU's.

(b) Plantation management CGU

The recoverable amount of the Plantation management CGU is determined based on VIU. VIU is calculated using cash flow projections from financial budgets covering a five year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 2.5% (2016: 3.0%), which are based on the Group's estimation, taking into consideration historical performance as well as expected long-term operating conditions. Growth rates do not exceed the consensus forecasts of the long-term average growth rate for the industry in which the CGU operates. A post-tax discount rate of 13.9% (2016: 11%) is applied to the cash flow projections. The discount rate is adjusted to incorporate risks associated with the CGU.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: IMPAIRMENT OF NON CURRENT ASSETS CARRIED AT AMORTISED COST (CONTINUED)

Other key assumptions used in assessing the recoverable amount of the Plantation management CGU are as follows:

- Average establishment fee revenue per hectare: \$66,839 (2016: \$88,359)
- Average hectares sold: 413 ha (2016: 1,464 ha)
- Inflation rate: 2.5% (2016: 3.0%).

(c) Sandalwood products CGU

The recoverable amount of the Sandalwood products CGU is determined based on VIU. VIU is calculated using cash flow projections from financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 2.5% (2016: 3.0%), which are based on Group's estimation, taking into consideration historical performance as well as expected long-term operating conditions. Growth rates do not exceed the consensus forecasts of the long-term average growth rate for the industry in which the CGU operates. A post-tax discount rate of 13% (2016: 11%) is applied to the cash flow projections. The discount rate is adjusted to incorporate risks associated with the CGU. The discount rate is based on the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary. The foreign exchange rate is determined with reference to external sources of information. Oil yield and heartwood costs are derived from key estimates for the Group's biological asset valuation and production costs are based on historical performance as well as expected long term operating conditions.

Other key assumptions used in assessing the recoverable amount of the Sandalwood products CGU are as follows:

- Oil yield: 3.2% (2016: 3.7%)
- Heartwood costs: \$110/kg (2016: \$130/kg);
- Production costs: \$558/litre (2016: \$357/litre); and
- Foreign exchange rate: 1.302 AUD (2016: 1.347 AUD)

(d) Pharmaceutical CGU

The recoverable amount of the Pharmaceutical CGU is determined based on FVLCD. FVLCD is calculated based on projected cash flows developed in consultation with external advisors considering changes to the current market expectations over the next 15 years. A 15 year (2016: 17 year) cash flow has been applied to take into consideration the fact that the CGU is currently in the research and development phase of its lifecycle with material cash inflows forecasted outside a 5 year range. The projection period has been adjusted to 15 years to align with the financial budgets approved by the Board following further market research and consultation with external advisors. No extrapolations have been made beyond the 15 year period as pharmaceutical licences are not indefinite and market consensus is that most products have a decreasing proportion of market share after peak penetration. These projections are discounted using a risk adjusted discount rate of 15%, which is commensurate with a typical market participant's assessment of the risk associated with the projected cash flows. The fair value measurement is classified as level 3 on the fair value hierarchy.

The following key assumptions were used in assessing the recoverable amount of the Pharmaceutical CGU:

- Years until first revenue: 7 years (2016: 1 year);
- Probability of success of over-the-counter products: 50% (2016: 100%);
- Probability of success of prescription products: 5% - 25% (2016: 27% - 58%);
- Discount rate: 15% (2016: 15%); and
- Foreign exchange rate: 1.302 AUD (2016: 1.347 AUD).

The discount rate is based on the weighted average cost of capital determined by prevailing or benchmarked market inputs, risk adjusted where necessary. The foreign exchange rate is determined with reference to external sources of information. The probability of product success is estimated with reference to the progress made on Quintis' research and development projects as well as external information on clinical development success rates. Profit margins have been calculated as a function of revenue per patient, patients with inflection, market penetration and cost of production. These factors are based on the USA and European population only and have been obtained in consultation with external advisors.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

**NOTE 13: IMPAIRMENT OF NON CURRENT ASSETS CARRIED AT AMORTISED COST
(CONTINUED)**

(e) Impairment expense

Recoverable amounts and resulting impairment write downs recognised in the year ended 30 June 2017 are:

	Impairment of other plant & equipment \$'000	Impairment of in-process research and development \$'000	Impairment of goodwill \$'000	Total impairment \$'000	Recoverable amount \$'000
Plantation management	22,483	-	-	22,483	291,632
Sandalwood products	4,216	-	20,205	24,421	26,845
Pharmaceutical	-	122,407	12,086	134,493	-
Total	26,699	122,407	32,291	181,397	318,477

The impairment charge for the current year has been recognised in 'Impairment of goodwill and intangible assets' and 'Impairment of other plant and equipment' in the statement of profit or loss. There were no impairment write downs recognised in the year ended 30 June 2016.

The recoverable amount for the pharmaceutical CGU has declined significantly since our last review of the CGU at 31 December 2016 driven by a change in the projected cash flows of Santalis, primarily to the prescription product portfolio after undertaking additional market research and benchmarking. Santalis' operations involve the development of various over-the-counter ("OTC") and prescription ("Rx") products which Santalis would ultimately license and sell to pharmaceutical companies in return for an ongoing royalty stream. The Group has made a number of changes to the timing of anticipated revenues and to the overall earning potential of Santalis' Rx product portfolio and this has resulted in a write down of the in-process research and development and goodwill recognised for the prescription product portfolio of \$114.520m and \$12.086m respectively.

Following the termination of the Group's partnership with Galderma, Quintis has also reduced the probability of success for Santalis' OTC products from 100% to 50%. This contributed to an impairment to the OTC research and development asset of \$7.887m.

The Group made a number of fundamental changes to the projected cash flows for Santalis including a reduction in the probability of success for Santalis' OTC products from 100% to 50% as well as amending forecasts to reflect a business that also develops, manufactures and sells its own products. This has delayed the timing of revenues anticipated as well as reduced the earning potential for Santalis, resulting in the full write down of in-process research and development and goodwill recognised for the Pharmaceutical CGU.

The recoverable amount for the plantation management CGU also declined significantly, driven by a downturn in market conditions which has impacted forecast revenue expected to be achieved. The Group also plans to move away from the sale of investments into the RIO sector.

The impairment charge noted above for the sandalwood products CGU primarily results from a decline in the volume of heartwood and oil content anticipated from the logs acquired by MRA for processing and sale.

(f) Sensitivity analysis

The assumptions for all CGUs are determined based on past experience and are consistent with external sources of information. In the event that future circumstances vary from these assumptions, the recoverable amount of the plantation management, sandalwood products and pharmaceutical CGUs could change materially and result in further impairment losses or the reversal of previous impairment losses, other than on goodwill.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

**NOTE 13: IMPAIRMENT OF NON CURRENT ASSETS CARRIED AT AMORTISED COST
(CONTINUED)**

Due to the interrelated nature of the assumptions, movements in any one variable can have an indirect impact on others and individual variables rarely change in isolation. Additionally, management can be expected to respond to some movements, to mitigate downsides and take advantage of upsides, as circumstances allows. Consequently it is impracticable to estimate the indirect impact that a change in one assumption has on other variables and hence, on the likelihood, or extent, of impairment or reversals of impairment under different sets of assumptions in subsequent reporting periods.

To the extent the CGU have been written down to their respective recoverable amounts in the current period, any change in key assumptions on which the valuations are based would further impact asset carrying values.

When modelled in isolation, it is estimated that changes in key assumptions would result in the following additional impairment charge or reversal in 2017:

	Impairment charge / (reversal) \$'000
Plantation management CGU	
Discount rate increase by 10%	7,592
Discount rate decrease by 10%	(9,584)
Average establishment fee revenue per hectare increase by \$1,500	(3,747)
Average establishment fee revenue per hectare decrease by \$1,500	3,747
Inflation rate increase by 10%	738
Inflation rate decrease by 10%	(734)
	Impairment charge / (reversal) \$'000
Sandalwood products CGU	
Discount rate increase by 10%**	-
Discount rate decrease by 10%	(4,216)
Increase in Sandalwood oil price by 10%	(4,216)
Decrease in Sandalwood oil price by 10%**	-
Oil yield increase by 10%	(4,216)
Oil yield decrease by 10%**	-
**	These changes in key assumptions does not result in additional impairment charge because the assets of the CGU has been written down to to their individual fair value less cost to dispose.
	Impairment charge / (reversal) \$'000
Pharmaceutical CGU (a)	
Probability of product success increase to 88%	(122,407)

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: IMPAIRMENT OF NON CURRENT ASSETS CARRIED AT AMORTISED COST (CONTINUED)

- (a) In regards to the Pharmaceutical CGU, no reasonably possible change in other key assumptions used in the determination of the recoverable amount of the Pharmaceutical CGU would result in a material change to the impairment loss recognised.

NOTE 14: FINANCIAL LIABILITIES (CURRENT)

	2017 \$'000	2016 \$'000
8.75% Senior Secured Notes (a)	333,673	-
Loan book liability (Note 19 (b))	11,734	-
Contingent consideration (Note 19(c))	1,949	7,808
External MIS grower liabilities (Note 19 (d))	5,306	6,240
	<u>352,662</u>	<u>14,048</u>

- (a) At 30 June 2017, a total of US\$250.000m has been raised from international 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 1.302 (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.

At any time prior to 1 August 2019, the Group may redeem some or all of the notes at a price equal to 100% of the principal, accrued interest to the redemption date and a “make-whole premium”. In addition to this, the Group may also redeem up to 35% of the original principal with the net proceeds of certain types of equity offerings at a redemption price of 108.75% of the principal, plus accrued and unpaid interest to the redemption date.

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, refer Note 10.

The Company did not publish quarterly financial reports as required under the Company’s Notes by 30 May 2017 triggering an Event of Default. As the Company obtained a waiver on 8 July 2017 was within 30 days of receiving notice of the Event of Default, no Repurchase Event was triggered and Quintis retained the unconditional right to defer principal payment on the Notes. The Company was in compliance with its other covenants as at 30 June 2017 but did not make an interest payment of US\$10.938m that was due on the Notes on 1 August 2017 which permitted Noteholders to demand accelerated repayment. A Forbearance Agreement was entered into with the Noteholders on 30 August 2017 whereby those Noteholders agreed to refrain from taking an enforceable action in relation to the default arising from the non-payment of the 1 August 2017 instalment of interest. With due consideration with the above events, the 8.75% Senior Secured Notes were classified from non-current to current liabilities.

Details of waivers obtained and ongoing negotiations with the Noteholders subsequent to balance date are included in Note 1.2 Going Concern.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 15: TRADE & OTHER PAYABLES (CURRENT)

	2017 \$'000	2016 \$'000
Unsecured:		
Trade payables	7,592	17,658
Dividends Payable	158	119
Other creditors and accrued expenses	10,916	24,628
GST Payable	(625)	6,948
	<u>18,040</u>	<u>49,353</u>

(a) Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- (ii) Other creditors are non-interest bearing and have an average term of twelve months.

NOTE 16: PROVISIONS (CURRENT)

	NOTE	2017 \$'000	2016 \$'000
Employee entitlements		2,403	2,322
Onerous contracts - Other		2,204	-
Onerous contracts - lease and maintenance obligations		4,242	-
		<u>8,849</u>	<u>2,322</u>

Movements in carrying amounts - current and non-current employee entitlements

Opening balances at beginning of the year		3,178	2,659
Additional provisions		3,281	1,534
Provision utilised		(1,632)	(1,015)
Balance at the end of the year		<u>4,827</u>	<u>3,178</u>

Current		2,403	2,322
Non-current	18	<u>2,424</u>	<u>856</u>

**2017
\$'000** **2016
\$'000**

Movements in carrying amounts - current and non-current onerous contracts (other)

Opening balances at beginning of the year		-	-
Additional provisions		4,840	-
Provision utilised		(513)	-
Balance at the end of the year		<u>4,327</u>	<u>-</u>

Current		2,204	-
Non-current	18	<u>2,123</u>	<u>-</u>

Movements in carrying amounts - current and non current onerous lease and maintenance obligations

Opening balances at beginning of the year		-	-
Arising during the year		23,491	-
Provision utilised		-	-
Balance at the end of the year		<u>23,491</u>	<u>-</u>

Current		4,242	-
Non-current	18	<u>19,249</u>	<u>-</u>

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 16: PROVISIONS (CURRENT) (CONTINUED)

Refer to Note 18 for details on nature of the provisions recognised above.

NOTE 17: UNEARNED INCOME (CURRENT)

	2017 \$'000	2016 \$'000
Unearned income	1,927	22,347

Unearned income represents establishment and lease & management fees recognised in advance of the services being provided.

The current classification represents that portion of unearned income where the services are to be provided within 12 months of balance date.

NOTE 18: PROVISIONS (NON CURRENT)

	NOTE	2017 \$'000	2016 \$'000
Lease land restoration		3,268	2,435
Employee entitlements	16	2,424	856
Onerous contracts - Other	16	2,123	-
Onerous contracts - lease and maintenance obligations	16	19,249	-
		27,064	3,291

Movements in carrying amounts - lease land restoration

Opening balances at beginning of the year	2,435	1,816
Unwinding of discount rate	833	619
Balance at the end of the year	3,268	2,435

Provision for lease land restoration

A provision has been recognised for the estimated costs to be incurred by the Group in restoring leased land to its original condition, or to that specified within the land lease agreement. The restoration cost per hectare has been determined by reference to the actual cost incurred by the Group to restore recently harvested plantation land and past experience of the level of restoration works required. The provision will be utilised as and when the land leases mature and currently will be over a period of 1 to 16 years, depending on the applicable land lease. The measurement recognition criteria relating to lease land restoration has been included in Note 1(s) to this report.

Provision for employee entitlements

A provision has been recognised for employee entitlements relating to annual leave, long service leave and employee bonus provisions. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee entitlements have been included in Note 1(o) to this report.

Provision for onerous contracts - Other

A provision has been recognised for obligations under an onerous lease and a forward sale contract when the net costs of exiting these contracts exceed the economic benefits the Group is expected to receive. The provision is measured at the present value of the lower of the expected cost of terminating the contracts and the expected net cost of continuing the contracts. It is expected that the costs associated with this provision will be incurred within the next 2.5 years. The increase in onerous contracts is primarily attributable to the recognition of provisions associated with a historical forward sales contract entered into by the Group. The measurement recognition criteria relating to onerous contracts has been included in Note 1(s) of this report.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 18: PROVISIONS (NON CURRENT) (CONTINUED)

Provision for onerous contracts - Lease and maintenance obligations

The Group sells plantation investments under contracts which commit the Group to provide plantation maintenance services and access to plantation land over the life of the project in return for management fees. When the unavoidable costs of meeting the obligations under the contract exceed the economic benefits the Group is expected to receive, an onerous contract provision has been recognised.

The provision is measured at the present value of the expected net cost of continuing the contracts as there is no option to terminate the contracts. It is expected that the costs associated with this provision will be incurred over the next 14-16 years as the Group's plantation maintenance and lease obligations are fulfilled. Certain contracts became onerous during the year due to a decrease in the Group's estimated return from the contracts in the form of a share of the gross harvest proceeds from the investors' plantations (ie value of the biological assets, refer to Note 11). The measurement recognition criteria relating to onerous contracts has been included in Note 1(s) of this report.

The expected gross harvest proceeds from the investors' plantations as well as forecast maintenance and lease costs is determined using key estimates for biological asset valuation for the investors' plantations. As detailed in Note 11, the fair value measurement of biological assets is sensitive to changes in the unobservable inputs which may result in a significantly higher or lower provision amount.

NOTE 19: FINANCIAL LIABILITIES (NON CURRENT)

	2017 \$'000	2016 \$'000
Secured:		
11% Senior secured notes at amortised cost (a)	-	272,505
Loan book liability at amortised cost (b)	1,109	-
Contingent consideration at fair value (c)	9,291	27,788
External MIS grower liabilities at fair value (d)	97,648	141,811
	<u>108,048</u>	<u>442,104</u>

- (a) At 30 June 2016, a total of US\$200.000m had been raised from international markets from the issuance of 11% Senior Secured Notes, with a maturity of 15 July 2018. During the current year, these notes were redeemed early at a premium of 104% following the issuance of the new 8.75% Senior Secured Notes (refer to Note 14). The redemption resulted in an early call premium of \$10.648m.
- (b) The financial liability arises from a part sale of the loan book that occurred in the current year. The sale contributed approximately \$10.482m in cash during the six months ended 31 December 2016. The acquirer of the loan book has full recourse to the Group and as a result, the underlying loan book has not been derecognised and a financial liability recognised. The loan book sold had a carrying amount of \$18.490m; with an average discount rate of 5.7% provided to the acquirer. Approximately 9.1% of the proceeds receivable from the sale of the portfolio was retained by the acquirer, which will be paid to the Group based on the repayment profile of the grower loans portfolio.

The sales were undertaken in three separate transactions and two of these sale agreements included a requirement for the Company to maintain its trading status on the ASX. The Company has been in a trading suspension since 17 May 2017 which represents an Event of Default.

This Event of Default under the sale agreements would have become an obligation on the Group to repurchase all outstanding loans subject to the sale agreements if an appropriate waiver was not obtained by 22 July 2017. As at 30 June 2017, the Group was still within the remedy period. However, a waiver from the acquirer to ensure a Repurchase Event was not triggered, was not obtained until after 30 June 2017. Accordingly, \$11.563m of the loan book liability has been classified as a current liability (refer to Note 14).

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19: FINANCIAL LIABILITIES (NON CURRENT) (CONTINUED)

- (c) The contingent consideration arises from the Group's acquisition of Santalis Pharmaceuticals Inc (Santalís) and Santalis Healthcare Corporation (formerly ViroXis Corporation) in FY16. The Group will pay the vendors further consideration over the next 7 years if further milestones and performance criteria are achieved. The contingent consideration payments and related performance criteria are summarised as follows:

For Santalis Healthcare Corporation

- Performance criteria milestone payments to a maximum of US\$26.0m and US\$20.0m for Santalis Healthcare and Santalis respectively, payable on a sliding scale subject to achieving the following milestones within five years after completion:
 - (i) US\$2.000m on the launch of an over-the-counter ("OTC") product
 - (ii) US\$4.000m on the enrolment of the first patient in a Phase 3 FDA trial for a skin indication
 - (iii) US\$4.000m on the enrolment of the first patient in a Phase 3 FDA trial for a second skin indication
 - (iv) US\$8.000m on FDA approval of a prescription product for a skin indication
 - (v) US\$8.000m on FDA approval of a prescription product for a second skin indication

For Santalis Pharmaceuticals Inc

- (i) US\$5.000m on the launch of a new OTC product
- (ii) US\$2.500m on the enrolment of the first patient in a Phase 3 FDA trial for a skin indication
- (iii) US\$2.500m on the enrolment of the first patient in a Phase 3 FDA trial for a second skin indication
- (iv) US\$5.000m on FDA approval of a prescription product for a skin indication
- (v) US\$5.000m on FDA approval of a prescription product for a second skin indication

If FDA approval of a prescription product (milestones (iv) and (v) above) is granted between five and eight years post completion, then 50% of the relevant milestone payment will be payable.

- Base earn out payments to a maximum of US\$50.000m, payable on a sliding scale subject to achieving certain levels of aggregate net cash flow ("NCF")
- Incentive earn out payments to a maximum of US\$98.200m, payable on a sliding scale and calculated as 20% of the NCF in excess of US\$10.000m for each of the three years ending on the six, seven and eight year anniversary of completion.
- Final earn out payment equal to 20% of the amount, if any, that the aggregate NCF for the eight year period after completion exceeds US\$111.900m for Santalis Healthcare and US\$111.700m for Santalis.

The contingent consideration payments are subject to a maximum purchase price cap for all purchase payments of US\$154.900m for Santalis Healthcare and US\$90.000m for Santalis. All contingent consideration payments are payable in shares and/or cash, at Quintis' election and in such proportions as Quintis determines. Of the shares determined to be issued, 15% will be issued at a price of \$1.85 and the balance will be issued at the prevailing share price upon payment.

The undiscounted total of all future payments that the Group could be required to make under the contingent consideration arrangement is between US\$0 and US\$221.500m. The contingent consideration is carried at fair value through profit or loss which was estimated to be \$11.240m as at 30 June 2017 (2016: \$35.597m). Fair value was determined using a discounted cash flow methodology, taking into consideration the option to settle in shares at Quintis' election. The fair value measurement, level 3 in the fair value hierarchy, is based on significant inputs that are not observable in the market.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19: FINANCIAL LIABILITIES (NON CURRENT) (CONTINUED)

Significant unobservable valuation inputs are provided below:

- Years until first revenue: 7 years (2016: 1 year);
- Probability of success of over-the-counter products: 50% (2016: 100%);
- Probability of success of prescription products: 18% (2016: 27% - 58%); and
- Foreign exchange rate: 1.302 AUD (2016: 1.347 AUD).

Sensitivity analysis

Revenue risk sensitivity analysis

The following tables demonstrate the sensitivity to a reasonably possible change in years until first revenue, with all other variables remaining constant:

	2017 \$'000
(Increase) / decrease in profit and equity	
Years until first revenue - brought forward by 1 year	22
Years until first revenue - delayed by 1 year	(79)

Product risk sensitivity analysis

The following tables demonstrate the sensitivity to a reasonably possible change in probability of prescription (Rx) product success, with all other variables remaining constant:

	2017 \$'000
(Increase) / decrease in profit and equity	
Increase in probability success factor by 5%	257
Decrease in probability success factor by 5%	(257)

Sensitivity analysis for probability of product success and years to first revenue has not been included for the comparative period because the Group made a number of fundamental changes to the planned direction for Santalis including amending forecasts to reflect a business that also develop, manufacture and sell its own products (refer Note 13 for details). Therefore, comparative information is not considered relevant or comparable.

Discount rate risk sensitivity analysis

The following tables demonstrate the sensitivity to a reasonably possible change in discount rate, with all other variables held constant:

	2017 \$'000	2016 \$'000
(Increase) / decrease in profit and equity		
Increase in discount rate by 2%	(77)	317
Decrease in discount rate by 2%	60	(321)

Foreign currency risk sensitivity analysis

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rate, with all other variables held constant:

	2017 \$'000	2016 \$'000
(Increase) / decrease in profit and equity		
Improvement in AUD to USD by 10%	(814)	(3,929)
Decline in AUD to USD by 10%	814	3,929

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19: FINANCIAL LIABILITIES (NON CURRENT) (CONTINUED)

- (d) The external MIS grower liability arises from the consolidation of certain MIS for accounting purposes. The liability will be settled with the proceeds arising from the monetisation of the external MIS grower interests in the Group's biological assets and harvested trees as detailed in Notes 11 and 6, and will not require any additional cash contribution from the Group outside of the MIS projects. External MIS grower liabilities are carried at fair value through profit and loss. The basis of determining the fair value of the liability, Level 3 within the fair value hierarchy, is consistent with the method adopted by the Group to value its biological assets (refer Note 11) and factors in credit risk and the security provided by the underlying trees.

The following is the reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

	2017 \$'000	2016 \$'000
<i>Contingent consideration - current and non current</i>		
Opening balance at the beginning of the year	35,596	-
Contingent consideration from business combination	-	38,190
Re-measurement of contingent consideration	(22,756)	(1,909)
Impact of changes in foreign exchange	(1,600)	(685)
Balance at the end of the year	11,240	35,596
Current	1,949	7,808
Non current	9,291	27,789
<i>External MIS grower liabilities</i>		
Opening balance at the beginning of the year	148,051	120,038
(Gain) / Loss on re-measurement of external MIS grower liabilities	(45,572)	21,695
Additions due to consolidation of TFS 2000	-	6,318
Disposals due to harvest	(3,182)	-
Inventory - harvested trees	3,657	-
Balance at the end of the year	102,954	148,051
Current	5,306	6,240
Non current	97,648	141,811

NOTE 20: DERIVATIVES - PUT OPTIONS

(a) Put options - Sophisticated investors

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 and receive trees at equal or higher fair value than the consideration paid.

As the terms of the put option is structured such that the exercising of the options does not result in an economic outflow to the Group, no value has been attributed to these put options as at 30 June 2017 (2016: \$Nil).

During the year, the Group negotiated the forfeiture of 62% of these put options. At 30 June 2017, 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 \$19.599m (2016: \$51.321m) or market value.

(b) Put options - Institutional investors

Included in the sales to an institutional investor during June 2014 was 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 in April 2017, the Group would have been required to acquire the plantations from the institutional investor for US\$24.908m.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 20: DERIVATIVES - PUT OPTIONS (CONTINUED)

As part of the Group's recapitalisation process (refer to Note 1.2), the Group continued to negotiate revised terms, including the exercise window, with the institutional investor. As at 30 June 2017, these negotiations had seen the terms amended to include the following:

- The put option may be exercised between either 10 July 2017 and 14 July 2017 or between 11 December 2017 and 15 December 2017 with settlement to occur at either the end of July 2017 or December 2017 respectively. If exercised, the Group will be required to pay a cash consideration of US\$29.303m;
- If exercised during the December 2017 window, the settlement value would increase by an annualised rate of 15% between July 2017 and December 2017;
- If not exercised in either July or December 2017, it may be exercised at any time prior to 31 December 2018 with a settlement value of US\$34.000m, but only following a change of control transaction.

Refer to Note 36 for details of events after the reporting date relating to these put options.

NOTE 21: UNEARNED INCOME (NON CURRENT)

	2017 \$'000	2016 \$'000
Unearned income	21,491	4,943

Unearned income represents establishment and lease & management fees recognised in advance of services being provided.

The non current classification represents that portion of unearned income where the services are to be provided later than 12 months of balance date.

NOTE 22: ISSUED CAPITAL

	2017 \$'000	2016 \$'000
390,291,753 fully paid ordinary shares (2016: 388,090,145)	284,109	280,827

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 22: ISSUED CAPITAL (CONTINUED)

	2017		2016	
	No.	\$'000	No.	\$'000
Ordinary shares				
Opening balance	388,090,145	280,827	326,983,445	187,177
Shares issued on 4 Aug 2015 as part of business combination	-	-	12,675,405	18,633
Shares issued on 8 Oct 2015 as part of business combination	-	-	1,740,886	2,559
Shares issued on 5 Nov 2015 as part of business combination	-	-	916,255	1,347
Shares issued on 9 Nov 2015 pursuant to dividend reinvestment plan at \$1.65 per share	-	-	1,612,800	2,661
Shares issued on 7 Apr 2016 under capital raising plan \$1.55 per share	-	-	39,000,000	60,450
Shares issued on 5 May 2016 under share purchase plan \$1.55 per share	-	-	5,161,354	8,000
Shares issued on 8 Nov 2016 pursuant to dividend reinvestment plan at \$1.50 per share	2,109,848	3,164	-	-
Shares issued on 31 Jan 2016 on exercise of warrants at \$1.28 per share	91,760	118	-	-
	<u>390,291,753</u>	<u>284,109</u>	<u>388,090,145</u>	<u>280,827</u>

A total of 1,335,400 (30 June 2016: 1,574,400) ordinary shares are reserved for employees under the share ownership plan.

Fully paid ordinary shares carry one vote per share and the rights to dividends. The shares have no par value.

As part of securing the Notes the Group agreed to issue 55.5m warrants (each warrant exercisable for one share). The issue of the warrants was subject to shareholders' approval, which was granted on 1 August 2011. The exercise price for each warrant is \$1.28.

	2017		2016	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Outstanding at the start of the year	54,390,000	1.28	54,390,000	1.28
Exercised	(91,760)	1.28	-	-
Exercisable at year end	<u>54,298,240</u>	<u>1.28</u>	<u>54,390,000</u>	<u>1.28</u>

NOTE 23: CAPITAL MANAGEMENT

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.

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.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 23: CAPITAL MANAGEMENT (CONTINUED)

The past year has been challenging for the Group given the performance of the business, the decline in shareholder value and the renegotiation of the Group's financial arrangements. This environment has resulted in a change to the strategy adopted by management to control the capital of the Group since the prior financial year. In the short term, the Board's objective is to ensure the proposed recapitalisation discussed in note 1.2 is satisfactorily concluded and conditions precedent to the proposed Recapitalisation Agreement are satisfied so that the Group continues as a going concern. In the medium to long term, the Group will refocus on its dividend policy, dividend reinvestment, gearing levels, share buybacks and selling or retaining non-current assets to control debt levels. However, until the Group achieves stable operations and sustained positive cash flows, these matters will not form the focus of capital management policy.

The gearing ratios for the current period and past year end are as follows:

	2017 \$'000	2016 \$'000
Total borrowings	333,673	272,505
Less: Cash and cash equivalents	(25,393)	(106,993)
Net debt	308,280	165,512
Total equity	317,149	747,222
Total capital	625,429	912,734
Gearing ratio	49.29%	18.13%

NOTE 24: RESERVES

Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets.

	2017 \$'000	2016 \$'000
Opening balance	6,990	8,777
Revaluation of land and buildings (net of tax)	(4,147)	(1,787)
Closing balance	2,843	6,990

Foreign Currency Translation Reserve

The foreign currency reserve records revaluations of foreign operations.

	2017	2016
Opening balance	2,300	271
Net exchange differences on translation of foreign subsidiaries	(517)	2,029
Closing balance	1,783	2,300

Option/Warrant Reserve

The option reserve records amounts received on issue of options and performance rights in the company.

	2017	2016
Opening balance	10,078	9,403
Share based payments	(280)	675
Closing balance	9,798	10,078

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017
NOTE 25: CASH FLOW INFORMATION**

	2017 \$'000	2016 \$'000
Cash balance as per statement of cash flows	25,393	106,993
Reconciliation of operating profits / (loss) after income tax to the net cash flow provided by / (used in) operating activities		
Operating profit / (loss) after income tax	(416,769)	90,143
Adjustments to reconcile profit before tax to net cash flows:		
Fair value (gain) / loss of biological assets - external MIS growers	45,572	(21,695)
Fair value (gain) / loss of external MIS grower liabilities	(45,572)	21,695
Depreciation of property, plant and equipment	13,329	11,163
Fair value adjustment of a contingent consideration	(24,357)	(2,595)
Tax adjustment taken directly to equity / Asset Revaluation Reserve	1,775	1,698
Foreign exchange loss relating to investments / borrowings	7,013	8,388
Share based payments	(280)	675
Change in fair value of land and buildings	11,331	6,661
Gain on acquisition of controlling interest in associated entity	-	(17,177)
Impairment of goodwill and intangible assets	154,698	-
Impairment of plant and equipment	26,699	-
Fair value (gain)/ loss on biological assets	307,371	(76,694)
Net cash provided by operating activities before change in assets and liabilities	80,810	22,262
Changes in operating assets and liabilities:		
Provision for taxation increase / (decrease)	(6,925)	(439)
Provision for impairments of trade and other receivables increase / (decrease)	13,719	(839)
Provision for deferred taxation increase / (decrease)	(141,007)	30,547
Future tax benefit (increase) / decrease	(40,231)	(2,249)
(Profit) / loss on sale of fixed assets	(11)	8
(Increase) / decrease in trade debtors	30,109	3,414
(Increase) / decrease in prepayments	640	(1,870)
(Increase) / decrease in deferred lease and management fees	1,690	(15,812)
(Increase) / decrease in grower loans	(3,938)	(12,438)
(Increase) / decrease in inventories	(13,382)	2,392
(Increase) / decrease in gain on settlement of trade debtor	(153)	(207)
Increase / (decrease) in trade creditors, provisions & other payables	1,254	3,874
Increase / (decrease) in unearned income	(3,872)	(8,397)
Net cash flows (used in)/from operating activities	(81,297)	20,246

Non cash operating and investing activities

Dividend Reinvestment Plan ("DRP")

2,109,848 shares (2016: 1,612,800 shares) were issued to those shareholders who participated in the Group's DRP. This equated to a dividend payout of \$3.164m (2016: \$2.661m).

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 25: CASH FLOW INFORMATION (CONTINUED)

Loans to growers

During the year Arwon Finance provided loans to growers for settlement of establishment fees payable. This transaction was on a non cash basis and amounted to \$15.000m (2016: \$37.399m) which has been eliminated from receipts from operations

Loan facilities

	2017 \$'000	2016 \$'000
At balance date the following financing facilities had been negotiated, were available and fully drawn down		
Total facilities:		
11% Senior Secured Notes at amortised cost	-	272,505
8.75% Senior Secured Notes	333,673	-
	<u>333,673</u>	<u>272,505</u>

NOTE 26: CAPITAL AND LEASING COMMITMENTS

	2017 \$'000	2016 \$'000
<i>Operating lease</i>		
Plantation land lease (non-cancellable)		
Due note later than one year	5,253	4,515
Later than one year but not later than two years	5,195	4,515
Later than two years but not later than five years	15,078	13,217
Later than five years	19,805	16,640
	<u>45,331</u>	<u>38,887</u>

These commitments represent payments due for leased land under a non-cancellable operating lease. The lease have terms of 15 to 16 years. The land can be used to plant and tend any agricultural crop which will not have a detrimental effect on the value or future use of the leased area. The annual rent is reviewed annually. The payments above reflect any projected increase.

	2017 \$'000	2016 \$'000
<i>Plantation land restoration commitment (i)</i>		
Payable:		
Not later than one year	16	16
Later than one year but not later than five years	64	64
Later than five years	21	38
	<u>101</u>	<u>118</u>

(i) Relate to committed restoration payments on leased plantation land.

	2017 \$'000	2016 \$'000
<i>Committed lease payments receivable</i>		
Payable:		
Not later than one year	86	155
Later than one year but not later than five years	85	176
	<u>171</u>	<u>331</u>

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 26: CAPITAL AND LEASING COMMITMENTS (CONTINUED)

The above committed lease payments receivable represents the minimum future lease payments receivable by the Group in respect to non-cancellable lease agreements over timber lots entered into by investors in past projects.

NOTE 27: DIVIDENDS

	2017 \$'000	2016 \$'000
<i>Distributions paid</i>		
Final fully franked dividend of 3 cents per share paid on 8 November 2016 (2016: 3 cents per share)	11,642	10,241

Franking credit balance

The amount of franking credits available for the subsequent financial year are:

- Franking account balance as at the end of the financial year at 30% (2016: 30%)	15,613	21,083
- Franking credits that arise from the payment of income tax payable as at the end of the financial year	408	7,333

2,109,848 shares (2016: 1,612,800 shares) were issued to those shareholders who participated in the Group's dividend reinvestment plan.

NOTE 28: EARNINGS PER SHARE

	2017 \$'000	2016 \$'000
(Loss) / earnings used in calculating basic and diluted earnings per share	(416,769)	90,143

Basic EPS is calculated by dividing profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year.

	Number of shares	
	2017	2016
Weighted average number of ordinary shares for basic earnings per share (i)	389,480,469	351,339,900
Effect of dilution of warrants (ii)	-	9,152,299
Weighted average number of ordinary shares adjusted for the effect of dilution	389,480,469	360,492,199

(i) 1,220,240 (2016: 2,128,578) performance rights are contingently issuable and are not included in the diluted EPS.

(ii) 54,298,240 (2016: Nil) warrants and 1,000,000 options are not included in the diluted EPS as they were anti-dilutive for 2017.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017
NOTE 29: AUDITORS' REMUNERATION**

	2017	2016
	\$	\$
Amounts received or due and receivable by auditors (Ernst & Young) of the entity and any other entity in the consolidated group:		
- Auditing or reviewing the financial report	714,011	441,265
- Other assurance services	112,204	320,330
- Other services	183,345	159,642
	<u>1,009,560</u>	<u>921,237</u>

Other services include tax compliance services, corporate modelling, assurance related services and remuneration benchmarking advice.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 30: CONTROLLED ENTITIES

	Country of Incorporation / Place of Business	2017 % owned	2016 % owned
Parent of entity:			
Quintis Ltd	Australia	-	-
Subsidiaries of parent:			
Quintis Forestry Services Ltd	Australia	100	100
Quintis Leasing Pty Ltd	Australia	100	100
Arwon Finance Pty Ltd	Australia	100	100
Sandalwood Properties Ltd	Australia	100	100
Quintis Products Pty Ltd	Australia	100	100
Fieldpark Pty Ltd	Australia	100	100
Mt Romance Holdings Pty Ltd	Australia	100	100
Mt Romance Australia Pty Ltd	Australia	100	100
Australian Sandalwood Oil Co, Pty Ltd	Australia	100	100
Tribal Dreaming Pty Ltd	Australia	100	100
Beyond Carbon Pty Ltd (trustee company only)	Australia	100	100
Gulf Natural Supply Co.	UAE	100	100
Santalís Pharmaceuticals Inc.	USA	100	100
Santalís Healthcare Corporation (formerly ViroXis Corporation)	USA	100	100
TFS Sandalwood Project 2000 (a) (b) (d)	Australia	-	67
TFS Sandalwood Project 2002 (a) (c)	Australia	9	-
TFS Sandalwood Project 2004 Premium (a) (b)	Australia	13	13
TFS Sandalwood Project 2005 (a) (b)	Australia	14	14
TFS Sandalwood Project 2006 (a) (b)	Australia	17	17
TFS Sandalwood Project 2007 (a) (b)	Australia	33	33

- (a) Control is assessed in accordance with the principles of AASB 10 *Consolidated Financial Statements*, consistent with Note 1(a).
- (b) The ownership interest reflected in the table above represents Quintis' direct interest in the wood lots within the schemes. In addition to these direct interest the Group had an indirect interest in TFS 2004 Premium, TFS 2005, TFS 2006 and TFS 2007 of 37%, 26%, 26% and 15% respectively (2016: 37%, 24%, 26% and 14%, respectively).
- (c) Through a buy back arrangement in August 2016, Quintis effectively acquired additional interest in TFS 2002. TFS now has a direct interest of 9% and an indirect interest of 22%. The transaction has been accounted for as an asset acquisition. The impact of consolidating TFS 2002 resulted in an increase in the carrying amount of biological assets and external MIS grower liabilities by \$1.649m.
- (d) This project has been harvested in the current period. Upon harvest, the Group realised its deferred lease and management fees resulting in loss of control in accordance with the principles of AASB 10.

Financial information, based on the Group's accounting policies of the consolidated MIS, are as follows:

Summarised statement of financial position at 30 June 2017:

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 30: CONTROLLED ENTITIES (CONTINUED)

	TFS Sandalwood Project 2002	TFS Sandalwood Project 2004 Premium	TFS Sandalwood Project 2005	TFS Sandalwood Project 2006	TFS Sandalwood Project 2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Inventory - harvested trees	3,657	-	-	-	-
Biological assets	1,649	10,593	10,138	33,382	43,536
Grower liabilities	(5,306)	(10,593)	(10,138)	(33,382)	(43,536)
Net assets	-	-	-	-	-

Summarised statement of financial position as at 30 June 2016:

	TFS Sandalwood Project 2000	TFS Sandalwood Project 2004 Premium	TFS Sandalwood Project 2005	TFS Sandalwood Project 2006	TFS Sandalwood Project 2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Biological assets	6,240	13,847	15,999	47,389	64,575
Grower liabilities	(6,240)	(13,847)	(15,999)	(47,389)	(64,575)
Net assets	-	-	-	-	-

Summarised statement of profit or loss for the year ended 30 June 2017:

	TFS Sandalwood Project 2002 ^	TFS Sandalwood Project 2004 Premium	TFS Sandalwood Project 2005	TFS Sandalwood Project 2006	TFS Sandalwood Project 2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Revaluation of biological assets	27	(3,254)	(5,861)	(14,007)	(21,039)
Re-measurement of grower liabilities	(27)	3,254	5,861	14,007	21,039
Net profit for the year	-	-	-	-	-

^ The summarised statement of profit or loss for TFS Sandalwood Project 2002 was from the period from August 2016 until June 2017, being the period that the scheme was controlled by the Group in accordance with the principles of AASB 10.

Summarised statement of profit or loss for the year ended 30 June 2016:

	TFS Sandalwood Project 2000	TFS Sandalwood Project 2004 Premium	TFS Sandalwood Project 2005	TFS Sandalwood Project 2006	TFS Sandalwood Project 2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Revaluation of biological assets	(165)	2,309	1,097	7,655	10,798
Re-measurement of grower liabilities	165	(2,309)	(1,097)	(7,655)	(10,798)
Net profit for the year	-	-	-	-	-

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 30: CONTROLLED ENTITIES (CONTINUED)

Pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785, relief has been granted to certain controlled entities of Quintis Ltd from the Corporations Act 2001 requirements for the preparation, audit and publication of accounts. As a condition of the Class Order, Quintis Ltd, Quintis Forestry Services Ltd and Mt Romance Holdings Pty Ltd, entered into a deed of cross guarantee. The effect of the deed is that Quintis Ltd has guaranteed to pay any deficiency in the event of winding up of a controlled entity or if they do not meet their obligations under the terms of loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Quintis Ltd is wound up or if it does not meet its obligations under the terms of loans, leases or other liabilities subject to the guarantee.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position of the entities party to the deed of cross guarantee are:

	2017	2016
	\$'000	\$'000
Revenue	129,555	176,381
Other income / (expense)	(292,692)	63,590
Direct plantation and other operating expenses	(24,573)	(28,603)
Raw materials and consumables used	(36,132)	(15,181)
Salaries and employees benefit expense	(32,875)	(30,537)
Sales and marketing expenses	(3,214)	(7,339)
Corporate and other administration expenses	(47,878)	(17,958)
Depreciation and amortisation expenses	(12,797)	(10,158)
Finance costs	(41,238)	(28,017)
Fair value gain / (loss) on contingent consideration	24,357	1,909
Unrealised foreign exchange gain / (loss)	7,184	(5,033)
Revaluation loss on land and buildings	(1,295)	-
Impairment of plant and equipment	(26,699)	-
Impairment and write down of investments	(124,417)	-
(Loss) / profit before income tax expense	(482,714)	99,054
Income tax benefit / (expense)	114,111	(29,217)
(Loss) / profit for the period	(368,603)	69,837
Other comprehensive income		
<i>Other comprehensive income not to be reclassified to profit and loss in subsequent periods:</i>		
Total comprehensive (loss) / income for the period	(368,603)	69,837

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 30: CONTROLLED ENTITIES (CONTINUED)

	2017 \$'000	2016 \$'000
CURRENT ASSETS		
Cash and cash equivalents	6,194	93,683
Trade and other receivables	45,176	66,587
Biological assets	2,871	22,007
Inventories	31,817	22,206
TOTAL CURRENT ASSETS	86,058	204,483
NON CURRENT ASSETS		
Trade and other receivables	75,318	94,526
Other financial assets	105,710	188,848
Property, plant and equipment	77,850	91,118
Deferred tax assets	34,168	23,171
Biological assets	322,972	570,077
Intangible assets and goodwill	40,988	37,891
TOTAL NON CURRENT ASSETS	657,006	1,005,631
TOTAL ASSETS	743,064	1,210,114
CURRENT LIABILITIES		
Trade and other payables	15,291	47,230
Financial liabilities	338,122	7,808
Current tax liabilities	409	7,333
Provisions	2,733	3,178
Unearned income	1,631	20,756
TOTAL CURRENT LIABILITIES	358,186	86,305
NON CURRENT LIABILITIES		
Provisions	15,673	65
Financial liabilities	9,291	300,294
Deferred tax liabilities	36,452	144,567
Unearned income	17,448	757
TOTAL NON CURRENT LIABILITIES	78,864	445,683
TOTAL LIABILITIES	437,050	531,988
NET ASSETS	306,014	678,126
EQUITY		
Issued capital	284,109	280,827
Asset revaluation reserve	742	742
Option / warrant reserve	9,798	10,079
Foreign currency translation reserve	2,916	2,373
Retained earnings	8,449	384,105
TOTAL EQUITY	306,014	678,126

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 30: CONTROLLED ENTITIES (CONTINUED)

Unconsolidated managed investment schemes

Except as detailed above, Quintis does not control any of its other MIS. Quintis has no obligation to provide financial support or funding to these MIS. During the year, harvest fees of \$0.176m from TFS Sandalwood Project 2000 were received. In the prior year, establishment fee income of \$5.734m from TFS Indian Sandalwood Project 2016 Retail Investment Offer and harvest fees of \$0.248m from TFS Sandalwood Project No.2 were received. The biological assets recognised on balance sheet relating to Quintis' interest in the unconsolidated MIS' is \$39.082m (2016: \$30.256m).

NOTE 31: OPERATING SEGMENTS

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.

Types of Products and Services by Segment

(i) Plantation management

The plantation management segment is firstly responsible for the promotion and sales of Indian Sandalwood lots to investors, also called growers.

Secondly, this segment is responsible for the establishment, maintenance and harvesting of Indian Sandalwood plantations on behalf of the growers and group owned plantations.

Thirdly, this segment is responsible for end-market research and the establishment of end-market agreements.

Significant plant & equipment, including tractors, motor vehicles and irrigation infrastructure form the basis for the operating assets in this segment.

(ii) Finance

The segment is responsible for providing finance to growers to purchase Sandalwood lots. This finance can either be provided in-house or by arranging external finance.

(iii) Sandalwood products

This segment, which includes the 100% owned subsidiary Mt Romance Holdings Pty Ltd, is responsible for the manufacture of Sandalwood Oil and products for resale both domestically and internationally.

(iv) Pharmaceutical

This segment is located in the US and is responsible for research and development of pharmaceutical and bio-pharmaceutical products for commercialising.

No operating segments have been aggregated to form the above reportable 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 with those adopted in the annual financial statements of the Group. Other income is included in revenue for segment reporting purposes.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 31: OPERATING SEGMENTS (CONTINUED)

Inter-Segment Transactions

An internally determined transfer price is set for all inter-entity sales. This price is reviewed on an ongoing basis and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Group's financial statements.

Corporate charges are allocated to the plantation management division, unless it can be assigned to a specific segment other than plantation management. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received. These inter-segment loans are a revolving facility with no fixed terms, interest free and repayable in full when the borrower is in a financial position to effect this.

Segment Assets

Investments in financial assets, deferred tax assets and intangible assets have been allocated to an operating segments.

Segment Liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities relating to the Group as a whole are allocated to the plantation management segment unless it can be assigned to a specific segment other than plantation management. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated Items

Currently the Group has no unallocated items other than the interest in investments accounted for under the equity method and the External MIS grower interest in biological assets and External MIS grower liabilities.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 31: OPERATING SEGMENTS (CONTINUED)

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

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Segment revenue</i>										
Establishment fees	38,331	94,966	-	-	-	-	-	-	38,331	94,966
Land sales	109	8,094	-	-	-	-	-	-	109	8,094
Lease and management fees	21,662	28,760	-	-	-	-	-	-	21,662	28,760
Product sales	-	-	-	-	39,169	29,778	-	76	39,169	29,854
Interest - external	660	1,128	4,373	2,488	3	5	4	2	5,040	3,623
Interest - inter segment	6,432	3,539	45	-	-	-	-	-	6,477	3,539
Other - external	8,941	9,299	302	480	121	58	1,000	536	10,364	10,373
Other - internal	-	329	-	-	-	766	-	-	-	1,095
Deferred lease and management fees net of impairment	(17,103)	16,233	-	-	-	-	-	-	(17,103)	16,233
Gain / (Loss) on fair value of plantation - Quintis' interest	(307,371)	76,892	-	-	-	-	-	-	(307,371)	76,892
Total segment revenue	(248,339)	239,240	4,720	2,968	39,293	30,607	1,004	614	(203,322)	273,429
<i>Reconciliation of segment revenue to group revenue</i>										
Other loss / (income)									307,207	(77,092)
Intersegment revenue									(6,478)	(4,634)
Total group revenue from ordinary activities									97,407	191,703

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 31: OPERATING SEGMENTS (CONTINUED)

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Results</i>										
Earnings before interest, tax, depreciation and amortisation (EBITDA)	(375,066)	140,882	4,132	2,786	(27,118)	10,949	(147,760)	(3,999)	(545,812)	150,618
<i>Reconciliation of segment EBITDA to group EBITDA</i>										
Inter segment profit									(6,478)	(4,634)
Unallocated gain - acquisition of controlling interest									-	17,177
Early call premium on 11% Senior Secured Notes									10,648	-
									(541,642)	163,161
Segment result before income tax	(421,766)	104,818	(495)	535	(28,001)	10,154	(149,762)	(5,252)	(600,024)	110,255
<i>Reconciliation of segment result to group net profit before tax</i>										
Inter segment profit									(6,478)	(4,634)
Unallocated gain - acquisition of controlling interest									-	17,177
Early call premium on 11% Senior Secured Notes									10,648	-
Net (loss) / profit before tax from continued operations									(595,854)	122,798

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 31: OPERATING SEGMENTS (CONTINUED)

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment Assets	976,586	1,199,344	79,440	72,947	41,507	46,759	993	137,324	1,098,526	1,456,374
Segment increases for the period:										
Capital expenditure	25,776	22,258	-	-	-	-	-	-	25,776	22,258
Acquisitions	-	7,211	-	-	-	1,325	-	-	-	8,536
	25,776	29,469	-	-	-	1,325	-	-	25,776	30,794
<i>Reconciliation of segment assets to group assets</i>										
External MIS grower interest in biological assets									102,954	148,051
Inter segment receivables eliminated on consolidation									(328,087)	(112,468)
Total group assets from continuing operations									873,393	1,491,957
Segment Liabilities	632,073	542,964	65,651	58,774	17,569	2,476	25,165	67,698	740,458	671,912
<i>Reconciliation of segment liabilities to group liabilities</i>										
External MIS grower liabilities									102,954	148,051
Inter segment eliminations									(287,168)	(75,228)
Total group liabilities from continuing operations									556,244	744,735

Geographic information

The non current assets of the Pharmaceutical reporting segment are all located in the USA.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32: FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, contingent consideration, loans to and from subsidiaries, Senior Secured Notes, put options and leases.

	2017 \$'000	2016 \$'000
Financial assets:		
Cash and cash equivalents	25,393	106,993
Cash deposit: First loss account, bank guarantee, escrow and custodian account	11,441	10,757
Loans and receivables	102,136	139,651
Total financial assets	138,970	257,401
Financial liabilities:		
Financial liabilities at fair value through profit or loss:		
External MIS grower liability at fair value through profit and loss (a)	102,954	148,051
Contingent consideration	11,240	35,596
Financial liabilities at amortised cost:		
Trade and other payables	18,040	49,353
Borrowings	333,673	272,505
Loan book liability	12,843	-
Total financial liabilities	478,750	505,505

- (a) The External MIS Grower liabilities of \$102.954m (2016: \$148.051m) offsets an exposure on the External MIS Grower interest in the biological assets and inventories with a carrying value of \$99.297m and \$3.657m respectively (2016: \$148.051m and \$Nil respectively).

Financial risk management

(i) Treasury risk management

A treasury committee has been established to regularly review the treasury risk management policies and to report to the Chief Executive Officer, Chief Financial Officer and the Board. The overall treasury risk management strategy is to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

(ii) Risk management objectives and policies

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk, foreign currency risk, credit risk, price risk and operational risk.

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

The Group manages its interest rate risk by having fixed rate borrowings to fund its fixed rate loans to growers. The Group also regularly monitors its risk on interest rate exposure and considers refinancing opportunities and interest rate hedging strategies if deemed necessary. The interest rate applicable to the 8.75% Senior Secured Notes is fixed over the full term of the Notes.

At the balance date the following interest bearing financial assets and financial liabilities were subject to Australian variable interest rates and exposed the Group to cash flow interest rate risk:

	2017 \$'000	2016 \$'000
Cash at bank and on hand	22,363	103,963
Cash deposits	3,460	5,578

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32: FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Interest rate sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in after tax interest rate, with all other variables held constant:

	2017 \$'000	2016 \$'000
Change in profit and equity		
Increase in interest rate by 1%	78	532
Decrease in interest rate by 1%	(78)	(532)

Excluded from this sensitivity calculation is the effect of interest rate changes on the contingent consideration payable which is non interest bearing and the 8.75% Senior Secured Notes which are subject to a fixed interest rate.

The External MIS Grower liabilities of \$102.954m (2016: \$148.051m) are exposed to fair value interest rate risk but have been excluded from this sensitivity calculation because its exposure is offset by the fair value exposure on the External MIS Grower interest in the biological assets and inventories with a carrying value of \$99.297m and \$3.657m respectively (2016: \$148.051m and \$Nil respectively). The Group's put options are also exposed to fair value interest rate risk but have been excluded from this sensitivity calculation as the Group does not consider the time value associated with the put options to be significant. Refer to Note 19 for the sensitivity analysis in respect of contingent consideration.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of operating cash flows and committed available credit facilities. The Group manages this risk through:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities; and
- reviewing alternative funding to diversify liquidity options. Refer to statement of cash flows and Note 1.2 for further information on the liquidity of the Group.

The tables below reflect the undiscounted contractual settlement terms for financial liabilities. As such the amounts may not reconcile to the statement of financial position.

	Maturing in			Total \$'000	Weighted Average Coupon Rate Percentage (%)
	Within 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
2017					
Financial liabilities					
Trade creditors	18,040	-	-	18,040	-
Secured notes	378,785	-	-	378,785	8.75
Contingent consideration	-	10,048	2,108	12,156	-
Loan book liability	13,667	838	298	14,803	-
Total financial liabilities	410,493	10,886	2,406	423,785	

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 32: FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

	Maturing in			Total \$'000	Weighted Average Coupon Rate Percentage (%)
	Within 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
2016					
Financial liabilities					
Trade creditors	49,353	-	-	49,353	-
Secured notes	-	282,834	-	282,834	11
Contingent consideration	8,996	49,265	-	58,261	-
Total financial liabilities	58,349	332,099	-	390,448	

- (a) The External MIS Grower liabilities have been excluded from the above tables as it will be settled with the proceeds arising from the monetisation of the external MIS grower interests in the Group's biological assets and inventories (refer Notes 11 and 6) and will not require any additional cash contribution from the Group outside of the MIS projects.

Foreign currency risk

Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the transacting entity's functional currency.

The Group is primarily exposed to the fluctuations in the US dollar in relation to the US\$250.000m Senior Secured Notes, maturing 2023, with semi-annual US dollar interest payable and the contingent consideration and put option which are payable in US dollar.

The External MIS Grower liabilities of \$102.954m (2016: \$148.051m) are exposed to foreign currency risk but this exposure is offset by the fair value exposure on the External MIS Grower interest in the biological assets and inventories with a carrying value of \$99.297m and \$3.657m respectively (2016: \$148.051m and \$Nil respectively).

The Group aims to reduce and manage the foreign exchange risk on the dollar denominated financial liabilities through natural hedges by generating US dollar denominated income and holding assets impacted by the US dollar. The Group also considers on a regular basis the practical and economic viability of foreign currency hedging instruments to hedge the risk of future foreign currency fluctuation.

Foreign currency risk sensitivity analysis

(a) Senior Secured Notes

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rate, with all other variables held constant:

	2017 \$'000	2016 \$'000
Increase / (decrease) in profit and equity		
Improvement in AUD to USD by 5%	11,397	20,676
Decline in AUD to USD by 5%	(11,397)	(20,676)

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations. The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets are the carrying amount of those assets as indicated in the consolidated statement of financial position.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 32: FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

The Group aims to minimise concentrations of credit risk in relation to trade receivables and loans to growers by holding security of the underlying Sandalwood lots.

In event of any default by an investor in a plantation investment, Quintis will seek to recover the outstanding amount by undertaking normal debt recovery procedures, but, if necessary, take possession of part or all of the underlying plantation and either retain ownership or seek to on-sell.

Credit risk on trade receivables is managed in the following ways:

- a risk assessment process is completed before granting loans to customers;
- timber lots are generally not allocated to an investor until the minimum initial payment is received;
- payment terms are generally 30 days, unless 12 month payments terms are granted, in which case a signed payment plan commitment is obtained from the customer;
- payment terms for certain establishment fees can extend beyond 30 days; and
- if any defaults are recognised the company can claim on its security by reclaiming the underlying Sandalwood lot.

The credit risk for counterparties included in the trade and other receivables at 30 June 2017 is detailed below:

	2017 \$'000	2016 \$'000
Trade and other receivables		
Counterparties not rated	102,136	139,651

The credit risk related to balances with banks and other financial institutions is managed in accordance with Board policy. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard & Poor's counterparty credit ratings.

Cash and cash equivalents		
AA rated counterparties	25,393	106,993
Other financial assets		
Counterparties not rated	3,460	5,578
AA rated counterparties	7,981	5,179
	11,441	10,757

Price Risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities. The Group is also exposed to commodity price risk in relation to its biological assets and operations carried on by its Sandalwood products division. The External MIS Grower liabilities of \$102.954m (2016: \$148.051m) are exposed to price risk. This however is offset by the exposure on the External MIS Grower interest in the biological assets and inventories with a carrying value of \$99.297m and \$3.657m respectively (2016: \$148.051m and \$Nil respectively). The Group does not anticipate that the Sandalwood album or Spicatum price will decline significantly in the foreseeable future.

The derivative financial liabilities (put option) are also exposed to this price risk as its valuation is linked to the value of the underlying asset (biological assets). The fair value measurement of the biological asset is sensitive to changes in the unobservable inputs as detailed in Note 11. Reasonably possible changes in the price of biological assets are not expected to change the fair value of the put options as at 30 June 2017.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 33: FAIR VALUE MEASUREMENT

The following table compares the fair values and carrying amounts of the Group's financial assets and liabilities:

		2017		2016	
	NOTE	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Financial assets:					
Trade and other receivables		102,137	85,250	139,651	131,765
Cash and cash equivalents		25,393	25,393	106,993	106,993
Cash deposit: First loss account, bank guarantee, escrow and custodian accounts		11,441	11,441	10,757	10,757
Total financial assets		138,971	122,084	257,401	249,515
Financial liabilities:					
External MIS grower liabilities	14, 19	102,954	102,954	148,051	148,047
Contingent consideration	14, 19	11,240	11,240	35,596	35,596
Senior Secured Notes	14	333,673	240,724	272,505	282,834
Trade and other payables	15	18,040	18,040	49,356	49,356
Loan book liability	14, 19	12,843	12,843	-	-
Total financial liabilities		478,751	385,802	505,508	515,833

The following table provides the fair value measurement hierarchy for assets as at 30 June 2017:

		Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Date of valuation	Total	\$'000	\$'000	\$'000	\$'000
Assets measured at fair value:					
Property, plant and equipment					
Freehold land	30 June 2017	52,685	-	-	52,685
Buildings	30 June 2017	27,983	-	-	27,983
Biological assets	30 June 2017	442,103	-	-	442,103
Assets for which fair values are disclosed :					
Trade and other receivables	30 June 2017	85,250	-	-	85,250

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 33: FAIR VALUE MEASUREMENT (CONTINUED)

The following table provides the fair value measurement hierarchy for liabilities as at 30 June 2017:

	Date of valuation	Fair value measurement using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		\$'000	\$'000	\$'000	\$'000
Liabilities measured at fair value:					
External MIS grower liabilities	30 June 2017	102,954	-	-	102,954
Contingent consideration	30 June 2017	11,240	-	-	11,240
Liabilities for which fair values are disclosed:					
Senior Secured Notes	30 June 2017	240,724	240,724	-	-
Trade and other payables	30 June 2017	18,040	-	-	18,040
Loan book liability	30 June 2017	12,843	-	-	12,843

The following table provides the fair value measurement hierarchy for assets as at 30 June 2016:

	Date of valuation	Fair value measurement using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		\$'000	\$'000	\$'000	\$'000
Assets measured at fair value:					
Property, plant and equipment					
Freehold land	30 June 2016	81,336	-	-	81,336
Buildings	30 June 2016	5,551	-	-	5,551
Biological assets	30 June 2016	771,208	-	-	771,208
Assets for which fair values are disclosed :					
Trade and other receivables	30 June 2016	131,765	-	131,765	-

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 33: FAIR VALUE MEASUREMENT (CONTINUED)

The following table provides fair value measurement hierarchy for liabilities as at 30 June 2016:

	Date of valuation	Fair value measurement using			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		\$'000	\$'000	\$'000	\$'000
Liabilities measured at fair value:					
External MIS grower liabilities	30 June 2016	148,047	-	-	148,047
Contingent consideration	30 June 2016	35,596	-	-	35,596
Liabilities for which fair values are disclosed					
Senior Secured Notes	30 June 2016	282,384	282,384	-	-

The following methods and assumptions are used to determine the fair values of financial assets and liabilities.

Nature of item	Fair value methods and assumptions
Cash equivalents and short-term investments	The carrying amount approximates fair value because of their short term maturity.
Current trade receivables and payables	The carrying amount approximates fair values.
Non current trade & other receivables	The fair values of long-term loans receivable are estimated using discounted cash flow analysis, based on market rates for similar types of borrowing arrangements.
Short-term borrowings	The fair value of the interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects a market rate as at the end of the reporting period.
Senior Secured Notes	The fair value of the Senior Secured Notes, which are quoted, are determined by reference to price quotations at the reporting date.
External MIS grower liabilities	The fair value is determined using a probability weighted discounted cash flow method. This is consistent with the method adopted by the Group to value its biological assets (refer Note 11) and factors in credit risk and the security provided by the underlying trees.
Contingent consideration	As part of the acquisition of Santalis Corporation and Santalis Healthcare in the prior year, part of the total consideration is contingent, based on performance of the acquired entities. A probability weighted discounted cash flow method has been used to determine the fair value of the contingent consideration, net of the fair value of the option to settle in shares using the Black Schole option pricing model (refer to Note 19).

NOTE 34: CONTRACTUAL COMMITMENTS

As a result of the acquisition of Santalis and Santalis Healthcare (previously known as ViroXis Corporation) in the prior year, Group has agreed to underwrite funding for the amount of US\$2.500m per annum per company for five years for product development costs within the Pharmaceutical division.

Refer to Note 11 for replanting commitments of the Group, if any.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 35: 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 \$1.690m, being the amount of cash available in the First Loss Account (refer Note 9). 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) The Group sells plantation investments under contracts which commit the Group to provide plantation maintenance services and access to plantation land over the life of the project in return for management fees. Where an investor elects to defer the payment of these fees, the Group will instead receive a proportion of the gross harvest proceeds from the investors' plantations. When the unavoidable costs of meeting the obligations under the contract exceed the economic benefits the Group is expected to receive, an onerous contract has been recognised for the difference between the present value of the forecast maintenance and lease costs for the remaining life of the project and the net present value of the Group's share of expected gross harvest proceeds.

As at 30 June 2017, the carrying value of the onerous contract was \$23.491m which has been calculated based on an estimate of the percentage of investors that will elect to defer the payment of their lease and management fees. An increase in the percentage of investors that elect to defer payment in the future could result in new onerous contracts being recognised, which in turn could impact future financial results.

- (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. Throughout April to October 2017, the Group negotiated revised terms to the put option which saw the exercise window for the put option deferred to later dates on a number of occasions.

As at the date of this report, the investor retains two exercise windows. If exercised in December 2017, US\$29.303m will be payable by the Group. If not exercised in December 2017, it may be exercised at any time prior to 31 December 2018 with a settlement value of US\$34.000m, but only following a change of control transaction.

NOTE 36: EVENTS AFTER THE REPORTING PERIOD

(a) Recapitalisation process

Subsequent to balance date, the Company has had continued discussions in relation to a recapitalisation that will provide the Group with a sustainable level of funding support until it stabilises its trading results and sufficiently improves operating cash flows. The discussions are well progressed but no binding agreements have been entered into as at the date of this report. Refer to Note 1.2 for details.

(b) Senior Secured Notes and amendment of terms

In respect of the Notes, the Company did not publish quarterly financial reports as required under the Company's Notes by 30 May 2017 triggering an Event of Default. As the Company obtained a waiver on 8 July 2017 which was within 30 days of receiving notice of the Event of Default, no Repurchase Event was triggered and Quintis retained the unconditional right to defer principal payment on the Notes. The Company was in compliance with its other covenants as at 30 June 2017 but did not make an interest payment of US\$10.938m that was due on the Notes on 1 August 2017. A Forbearance Agreement was entered into with the Noteholders on 30 August 2017 whereby those Noteholders agreed to refrain from taking an enforceable action in relation to the default arising from the non-payment of the 1 August 2017 instalment of interest. The Forbearance Agreement will continue until 1 March 2018 subject to a number of termination events including Quintis' inability to agree to a recapitalisation plan by 17 November 2017. The Noteholders have demonstrated willingness to extend this deadline historically.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 36: EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

Subsequent to balance date, the Company has had continued discussions with the Noteholders as part of the Group's recapitalisation process. The discussions are well progressed but no binding agreements have been entered into as at the date of this report. Refer to Note 1.2 for details.

(c) Put options

Institutional investors

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. Throughout April to October 2017, the Group negotiated revised terms to the put option which saw the exercise window for the put option deferred to later dates on a number of occasions.

On 11 August 2017, the institutional investor allowed an exercise window from 9 August 2017 to 11 August 2017 to lapse without exercising the put option. As at the date of this report, the investor retains the following exercise windows:

- Between 11 December 2017 and 15 December 2017 with settlement to occur at the end of December 2017. If exercised during the December 2017 window, the settlement value would increase by an annualised rate of 15% between July 2017 and December 2017;
- If not exercised in December 2017, it may be exercised at any time prior to 31 December 2018 with a settlement value of US\$34.000m, but only following a change of control transaction.

If the option is exercised, US\$29.303m will be payable by the Group in December 2017.

(d) Shareholder class action

On 12 September 2017, the Company received notice that it has received an originating application and statement of claims ("the Proceedings") lodged in the Federal Court of Australia on 7 September 2017 and dated 12 September 2017.

The Proceedings brought by some Quintis shareholders allege that the Company breached continuous disclosure provisions of the Corporations Act 2001 and the ASX Listing Rules in relation to the termination of a Sandalwood oil supply agreement between pharmaceutical company Galderma and Quintis' wholly owned subsidiary Santalis Pharmaceuticals Inc.

Quintis denies liability in respect of these allegations and will defend the proceedings. The outcome of the case cannot be reliably determined at the time of the release of this report.

(e) Action against certain SIO investors

On 17 July 2017, the Company announced its wholly owned subsidiary, Arwon Finance Pty Ltd, has resolved to commence enforcement action against two existing SIO investors who are in default of their repayment obligations under existing loan agreements. One of these investors is Mr Frank Wilson, the Company's former Managing Director, who is in payment default under his \$11.100m loans with Arwon Finance Pty Ltd. The outstanding amount is secured over the investors' plantation interests and is therefore not expected to have an impact on the financial results of future periods.

(f) Credit rating changes

On 31 July 2017, credit rating agency Moody's downgraded the Company's corporate rating and Senior Secured Notes rating from Caa1 to Ca. On 4 September 2017, Moody's further downgraded the Company's corporate rating and senior secured notes rating from Ca to C.

Separately on 1 September 2017, credit rating agency S&P Global Ratings downgraded the Company's corporate rating and Senior Secured Notes rating from CCC- to D.

These rating changes had no impact on the Company's debt capital structure, but may impact the Group's cost of borrowing for new financing arrangements in future periods as well as the measurement of financial liabilities carried at fair value.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 36: EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(g) Loan book sale

During the current financial year, the Group sold a part of its loan book, refer to Note 19 (b) for further details on the loan book sale. The sales were undertaken in three separate transaction and two of these sale agreements included a requirement for the Company to maintain its trading status on the Australian Securities Exchange (“ASX”). The Company has been in a trading suspension since 17 May 2017 which represents an Event of Default.

This Event of Default under the sale agreements would have become an obligation on the Group to repurchase all outstanding loans subject to the sale agreements if an appropriate waiver was not obtained by 22 July 2017. As at 30 June 2017, the Company was within the remedy period. However, a waiver from the acquirer to ensure a Repurchase Event was not triggered, was not obtained until after 30 June 2017. This waiver is conditional upon the Company entering into a binding recapitalisation transaction by 17 November 2017. The acquirer of the loan book has demonstrated willingness to extend this deadline historically. Accordingly \$11.563m of the loan book liability has been classified as a current liability.

The total net amount of borrower loans that could be the subject to this repurchase obligation as at 30 June 2017 is \$10.500m.

(h) Short term funding agreement

On 13 November 2017, the Company entered into a new financing facility for up to US\$20.0 million through a Note Agreement and Guaranty (“Note Agreement”) with a majority of the existing holders of Quintis’ Senior Secured Notes. The Note Agreement will allow the Company to issue up to US\$15.0 million of Series A Notes and up to US\$5.0 million of Series B Notes, each series having a coupon of 12.0% per annum and a maturity of 31 May 2018. The interest coupon can be capitalised at the maturity date or when a recapitalisation transaction occurs.

Issuance of the Series A Notes is subject to customary closing conditions and their issuance is expected to be completed by 17 November 2017. Issuance of the Series B Notes will be subject to approval of majority Noteholders and customary closing conditions.

The Series A Notes and Series B Notes will utilise a “super senior” security under the indenture governing the Company’s existing 8.75% senior secured notes and rank senior in right of payment to the 8.75% senior secured notes. The Series A Notes and Series B Notes will not be listed on any exchange.

The key terms of the facility are:

- Initial issuance of Series A Notes in the amount of US\$15.0 million;
- Potential further issuance of Series B Notes for up to US\$5.0 million;
- Coupon of 12.0% per annum for both Series A and Series B Notes;
- Establishment fee of 5.0%;
- Maturity of 31 May 2018; and
- Security provided as secured assets with payment priority “super senior”.

The proceeds from the Notes will be used to fund Quintis’ ongoing corporate and plantation operations as the Company works to secure a recapitalisation.

NOTE 37: SHARE-BASED PAYMENTS

The following share based payment arrangements existed at 30 June 2017:

On 21 February 2008 the company entered into an agreement with Lush Ltd (“Lush”) for the future supply by the Group of Sandalwood oil to Lush. In conjunction with entering into the agreement, the company issued to Lush 1,000,000 options to purchase ordinary shares in Quintis Ltd. The options are exercisable any time within 3 years of first commercial Sandalwood delivery. The first commercial Sandalwood delivery occurred by the end of 2014. The exercise price for each warrant is \$1.80.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 37: SHARE-BASED PAYMENTS (CONTINUED)

	2017		2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening balance	1,000,000	\$1.80	1,000,000	\$1.80
Closing balance	1,000,000	\$1.80	1,000,000	\$1.80
Exercisable at year end	-	-	-	-

The fair value of the options outstanding at grant date was \$0.478. This price was calculated by using Black Scholes option pricing model applying the following inputs:

- Weighted average exercise price: \$1.80
- Anticipated expiry date: 31 December 2017
- Underlying share price at date of issue: \$1.06
- Share price volatility: 48%
- Risk free interest rate: 6.61%

None of these options were exercised during the year.

The Group operated two types of ownership-based schemes for Executives and employees. The new Quintis LTIP (formerly known as TFS LTIP), which grants performance rights, was approved by shareholders in 2014. This has replaced the previous LTIP (Share Acquisition Plan), whereby shares were issued to employees financed by way of non-recourse loans.

Quintis LTIP

On 15 December 2016, 242,578 and 977,663 performance rights were granted to the Managing Director and senior employees respectively under the 2017 Quintis Long Term Incentive Plan (“Quintis LTIP”). A performance right is determined by and awarded at the discretion of the Board. It provides in effect, a contractual right to be issued with a fully paid ordinary share in the Company (or an equivalent cash amount determined by and at the discretion of the Board) on the satisfaction of certain conditions. The performance rights issued will not vest (and the underlying shares will not be issued) unless certain performance conditions have been satisfied.

The performance rights are subject to two performance hurdles which are independent and will be tested separately. Details of the performance hurdles are as follows:

Cash EBITDA performance hurdle - Cash EBITDA - performance rights will be subject to the Group’s cash EBITDA growth performance over the period 1 July 2016 to 30 June 2019.

TSR performance hurdle - performance rights subject to the Group’s growth in Total Shareholder Return (“TSR”) over the period 1 July 2016 to 30 June 2019.

The percentage of performance rights subject to the TSR hurdle and cash EBITDA hurdle that vests, if any, will be determined by the Board with reference to annual TSR growth and cash EBITDA achieved over the performance period, compared to the Company’s targets, as follows:

Compound annual growth in TSR performance and cash EBITDA over the Performance Period		Rights subject to TSR and cash EBITDA hurdles that vest %	Rights subject to TSR and basic cash EPS hurdles that vest
Maximum % or above	Greater than 12.5% p.a.	100%	100%
Between target % and maximum %	7.5% to 12.5% p.a	Progressive pro rata vesting between 50% to 100% (i.e. on a straight line basis)	Progressive pro rata vesting between 50% to 100% (i.e. on a straight line basis)
Less than the target %	Less than 7.5%	0%	0%

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 37: SHARE-BASED PAYMENTS (CONTINUED)

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 1.96%. The cash EBITDA performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

The weighted average fair value of the rights at grant date was \$1.67 (cash EBITDA performance right) and \$0.96 (TSR performance right) and is calculated applying the following inputs:

Weighted average share price	\$0
Expiry date	19 December 2023
Underlying share price at date of grant	\$1.67
Share price volatility	46.77%
Dividend yield	1.8%

The following rights are on issue under the Quintis LTIP arrangement:

	2017	2016
	Number	Number
Opening balance	3,523,923	2,101,459
Granted during the year	1,220,240	1,442,914
Forfeited during the year	(3,404,606)	(20,450)
Outstanding at 30 June	<u>1,339,557</u>	<u>3,523,923</u>
Exercisable at 30 June	<u>-</u>	<u>-</u>

As the TSR hurdle is considered a market based vesting condition for accounting purposes, remuneration expense previously recognised in accordance with Australian Accounting Standards for performance rights with TSR hurdles have not been reversed notwithstanding the performance rights did not vest and were forfeited by the KMP

The weighted average remaining contractual life for the LTIP outstanding as at 30 June 2017 was 3.39 years (2016: 2.12 years).

The exercise price for rights outstanding at the end of the year was \$0 (2016: \$0).

Share acquisition plan

To ensure that the Group has appropriate mechanisms to continue to attract and retain the services of Executive Directors and employees of a high calibre, the Group established the Share acquisition plan. The Group obtained shareholder approval at the AGM for the Plan in November 2009 and again in November 2012, and any shares issued under the Plan within 3 years of approval of the Plan.

The following rights are on issue under the plan:

	2017		2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Opening balance	1,574,400	\$0.74	2,534,300	\$0.74
Issued during the year	-	-	-	-
Rights previously held by employees who have resigned	(161,100)	\$0.90	(121,000)	\$0.97
Rights exercised by employees	(77,900)	\$0.99	(838,900)	\$0.72
Closing balance	<u>1,335,400</u>	<u>\$0.71</u>	<u>1,574,400</u>	<u>\$0.74</u>

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 37: SHARE-BASED PAYMENTS (CONTINUED)

All the rights included in the closing balance have vested and are available to holders to be dealt with in accordance with the rules of the Quintis LTIP. These shares may not be transferred or otherwise dealt with until any loan in respect of the Quintis LTIP share is repaid.

All shares issued under the plan with non-recourse loans are considered, for accounting purposes, to be options.

Option series	Number	Grant date	Expiry date	Weighted average exercise price	Weighted average fair value at grant date
Share issue no.1	394,500	09/03/2007	No fixed date	\$0.56	\$0.26
Share issue no.2	93,200	06/06/2008	No fixed date	\$1.11	\$0.60
Share issue no.3	-	06/06/2008	No fixed date	\$1.15	\$0.59
Share issue no.4	535,600	27/02/2009	No fixed date	\$0.72	\$0.36
Share issue no.5	144,800	02/02/2010	No fixed date	\$1.02	\$0.45
Share issue no.6	167,300	10/05/2013	No fixed date	\$0.52	\$0.21
	<u>1,335,400</u>				

NOTE 38: KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below.

	2017 \$	2016 \$
Short-term employee benefits	3,424,416	3,470,122
Post-employment benefits	284,574	312,853
Other long-term benefits	85,058	38,503
Share-based payment	(273,416)	279,284
	<u>3,520,632</u>	<u>4,100,762</u>

NOTE 39: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions are no more favourable than those available to other parties unless otherwise stated. Transactions include all payments excluding reimbursements.

Loans to Key Management Personnel

The Group has provided several of its KMP with short-term loans at rates comparable to the average commercial rate offered to third party acquirers of the Group's plantations. The loans were wholly applied to fund the acquisition of interest in the Group's SIO investment product on the same terms as other SIO investors.

No new loans were advanced to KMP during the 2017 financial year. During the prior year, the Group provided certain KMPs with loans attracting interest at an average rate of 7.52%, which is comparable to the average commercial rate of interest.

Terms and conditions of loans to KMP and their related parties:

Loans to senior executives are charged interest at normal commercial terms and conditions that are no more favourable than those available to other parties. The average commercial rate of interest on outstanding loans was 10.1% (2016: 9.1%).

The loans to KMP are secured over their trees and are full recourse.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 39: RELATED PARTY TRANSACTIONS (CONTINUED)

2017	Balance at the beginning of the year	Amount advanced \$	Principal repayments \$	Net change other \$	Balance at the end of the year \$	Interest charged \$	No. in group
Director - Loans	11,336,334	-	(476,905)	(10,859,429) (i)	-	611,717	1
Other key management	120,898	-	(4,213)	-	116,685	2,797	2
Total	11,457,232	-	(481,118)	(10,859,429)	116,685	614,514	

(i) Balance at the date of resignation, being 27 March 2017.

2016	Balance at the beginning of the year	Amount advanced \$	Principal repayments \$	Sale of loan \$	Balance at the end of the year \$	Interest charged \$	No. in group
Director - Loans	12,061,500	-	(725,166)	-	11,336,334	483,707	1
Other key management	626,636	46,197	(551,935)	-	120,898	36,634	2
Total	12,688,136	46,197	(1,277,101)	-	11,457,232	520,341	

Key Management Personnel With Loans Above \$100,000 in the Reporting Period

No new loans were advanced to KMP during the 2017 financial year.

Details of KMP and their related parties with aggregate of loans above \$100,000 in the reporting period:

2017	Nature of loan	Balance at the beginning of the year \$	Amount advanced \$	Principal repayments \$	Net change other \$	Balance at the end of the year \$	Interest charged
F Wilson	Loans (i)	11,336,334	-	(476,905)	(10,859,429) (ii)	-	611,717
Q Megson	Loans (i)	120,898	-	(4,213)	-	116,685	2,797

(i) Loans used solely for the purpose of investing in Quintis plantations (on terms no more favourable than other plantation investors).

(ii) Balance at year-end depicts balance at date of resignation, being 27 March 2017.

2016	Nature of loan	Balance at the beginning of the year \$	Amount advanced \$	Principal repayments \$	Sale of loan \$	Balance at the end of the year \$	Interest charged
F Wilson	Loans (i)	12,061,500	-	(725,166)	-	11,336,334	483,707
I Thompson	Loans (i)	540,080	-	(540,080)	-	-	29,135

(i) Loans used solely for the purpose of investing in Quintis plantations (on terms no more favourable than other plantation investors).

Other Transactions with Director Related Entities:

Transactions with, and amounts receivable from and payable to, specified Directors or their personally related entities occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the Director or related entity at arm's length in the same circumstances.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 39: RELATED PARTY TRANSACTIONS (CONTINUED)

- (i) Wilson & Atkinson ceased trading in the 2016 financial year. Frank Wilson was a principal of the firm and was a part owner in the business until it ceased trading in the prior year. The company provided legal services on commercial terms to the Group. During the year ended 30 June 2016, an amount of \$159,673 was charged to the Group. Frank Wilson neither directly nor indirectly received any financial benefit from these payments.
- (ii) Project lease and management fees paid by Directors during the year were \$4,035 GST inclusive (2016: \$1,821,722 GST inclusive).
- (iii) A subsidiary of Quintis Ltd entered into a loan book sale with a related entity. The carrying value of these loans at the time of the disposal was \$1.475m. This transaction was completed at normal commercial terms and conditions that are no more favourable than those available to other parties. Dalton Gooding is a director and minority shareholder of this related entity. Refer to Notes 14 and 19 for details of the loan book sale.
- (iv) Dalton Gooding is a Senior Partner of Gooding Partners. During the year ended 30 June 2017, an amount of \$12,906 (2016: nil) was charged to the Group by Gooding Partners for additional accounting services. This transaction was performed at arm's length terms and conditions.

The ultimate parent entity in the wholly owned group is Quintis Ltd.

Amounts receivable or payable between the parent and the wholly owned controlled entities are disclosed in Note 40 to the financial statements.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 40: PARENT ENTITY DISCLOSURES

(a) Financial position

	2017 \$'000	2016 \$'000
Assets		
Current assets	74,793	71,643
Non current assets	519,742	577,736
	<u>594,535</u>	<u>649,379</u>
Liabilities		
Current liabilities	336,897	30,431
Non current liabilities	2,763	303,022
	<u>339,660</u>	<u>333,453</u>
Net assets	<u>254,875</u>	<u>315,926</u>
Equity		
Issued capital	284,109	280,827
Option reserve	9,798	10,078
Foreign currency translation reserve	2,917	2,374
Retained profits	(41,949)	22,647
	<u>254,875</u>	<u>315,926</u>

(b) Financial performance

Profit/ (loss) for the year	(70,352)	20,255
Other comprehensive income	543	2,373
	<u>(69,809)</u>	<u>22,628</u>

(c) Contingent liabilities of the parent entity

Refer to Notes 35 and 36 for the Parent Entity's contingent liabilities at balance date.

(d) Commitments for the acquisition of property, plant and equipment by the parent entity

At balance date no such commitments existed for the Parent Entity

(e) Intercompany Loans to Controlled Entities

The loans to controlled entities are revolving facilities with no fixed term. Interest accrues at 11% per annum on loans provided after 31 May 2011. No interest accrues on loans provided pre 31 May 2011. In the current year, a total of \$72.537m was recognised as a provision for impairment against intercompany loans receivable and investments. The impairment charge had no impact on the Group as the intercompany loans and investments eliminate upon consolidation.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 40: PARENT ENTITY DISCLOSURES (CONTINUED)

	2017 \$'000	2016 \$'000
<i>Intercompany loans to / (from) controlled entities</i>		
Quintis Forestry Ltd - Pre 31 May 2011	42,374	42,374
Arwon Finance Pty Ltd - Pre 31 May 2011	10,152	10,152
Mt Romance Holdings Pty Ltd	17,787	(2,727)
Gulf Natural Supplies Co	745	129
Quintis Forestry Ltd - Post 31 May 2011	287,168	240,512
Arwon Finance Pty Ltd - Post 31 May 2011	42,720	48,286
Sandalwood Properties Ltd - Post 31 May 2011	32,116	2,014
Santalís Pharmaceutical Inc	-	12,433
Santalís Healthcare Corporation	266	1,499
Sandalwood Marketing	(2,267)	-
	<u>431,061</u>	<u>354,672</u>

NOTE 41: BUSINESS COMBINATIONS

In prior year, Quintis Ltd acquired 50% of the voting shares of Santalis Pharmaceuticals Inc. ("Santalís") not already owned and 100% of the voting shares of Santalis Healthcare Corporation (formerly ViroXis Corporation) on 31 July 2015. The value of total consideration for Santalis was \$40.703m and the fair value of identifiable net assets acquired was \$28.617m resulting in goodwill of \$12.086m. The value of total consideration for Santalis Healthcare Corporation was \$41.954m and the fair value of identifiable net assets acquired was \$42.244m resulting in a discount arising on acquisition of \$0.290m.

The business combinations contributed revenues of \$0.140m from Santalis Healthcare Corporation and \$0.537m from Santalis and net loss before tax of \$3.299m from Santalis Healthcare Corporation and \$3.412m from Santalis for the year ended 30 June 2016 from their date of acquisition. It was expected that the Group would have reported \$268.86m in consolidated revenues and \$82.385m consolidated net profit after tax attributable to members for the year ended 30 June 2016, had the business combination occurred at the beginning of the FY16 reporting period.

Refer to Note 19 for details on contingent consideration payable in respect of the acquisition over an eight year period from acquisition date if further milestones and performance criteria are achieved.

Independent auditor's report to the Members of Quintis Ltd

Report on the audit of the financial report

Opinion

We have audited the financial report of Quintis Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to Note 1.2 to the financial report, which indicates that the Group incurred a net loss after tax of \$416.769 million and operating cash outflows after income tax of \$81.297 million during the year ended 30 June 2017. As at that date, the Group had net current liabilities of \$273.479 million. The Group's ability to continue as a going concern and meet its debts as and when they fall due is dependent upon the matters described in Note 1.2 to the financial report. These events or conditions indicate that a material uncertainty exists that may cast significant doubt as to the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Valuation of biological assets

Why significant	How our audit addressed the key audit matter
<p>The Group owns significant interests in Sandalwood trees, classified as biological assets on the consolidated statement of financial position.</p> <p>Biological assets are measured at their fair value less costs of disposal at the reporting date. In the absence of a reliable market price for Indian Sandalwood trees, the fair value is determined by the Group by utilising a discounted cash flow model.</p> <p>The model reflects the directors' best estimates of the future cash inflows and outflows associated with the biological assets, discounted to present value.</p> <p>The valuation of the Group's biological assets involved significant judgement in relation to a number of sensitive inputs to the valuation model.</p> <p>The Group provides details of the valuation methodology in Note 1.4 <i>Summary of significant accounting policies</i> and Note 11 <i>Biological assets</i> to the financial report.</p>	<p>We evaluated the assumptions and methodologies used by the Group, in particular, those relating to the Sandalwood oil and implied heartwood prices, heartwood yields, time to harvest, discount rate, inflation rate, foreign exchange rate and harvesting, maintenance and processing costs. In doing so we involved our valuation specialists.</p> <p>We considered the sensitivity of the biological assets valuation to reasonably possible changes in the underlying key assumptions.</p> <p>We also considered the adequacy of the financial report disclosures regarding those assumptions.</p>

2. Carrying value of non-current assets including intangible assets and goodwill

Why significant	How our audit addressed the key audit matter
<p>The Group carries \$256.621 million of property, plant and equipment, intangible assets, and goodwill on the consolidated statement of financial position.</p> <p>The Group assesses at the end of each reporting period whether there are any triggers indicating that an asset may be impaired. Goodwill is assessed for impairment at least annually.</p> <p>Following consideration of a number of impairment indicators at 30 June 2017, the Group performed impairment assessments across all asset classes and cash generating units (CGUs).</p> <p>The Group provides details of the impairment tests in Note 10 <i>Property, plant and equipment</i> and Note 12 <i>Intangible assets and goodwill</i> to the financial report.</p>	<p>Together with our valuation specialists, we considered the assumptions and methodology used by the Group in performing its impairment assessments.</p> <p>This included assumptions relating to the determination of CGUs, discount rate, inflation rate, average hectares sold per annum, average establishment fee revenue per hectare, average cost of land per hectare, sandalwood oil prices, processing costs and foreign exchange.</p> <p>We considered the independent third party land and buildings valuations obtained by the Group. Together with our real estate valuation specialists we examined the qualifications and experience of the valuers, and assessed whether the valuation assumptions they used were reasonable.</p> <p>We considered the Group's specific analysis of the status of the projects where development costs were capitalised and recognised as an intangible asset. We reviewed operational reports and feasibility studies to assess whether there is evidence of a future economic benefit from the use or disposal of the intangible asset relating to these projects.</p> <p>We assessed the adequacy of the financial report disclosures regarding those assumptions, to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of the Group's assets.</p>

3. Recognition of revenues for establishment fees

Why significant	How our audit addressed the key audit matter
<p>Establishment fees charged upon the sale of new plantations to growers are recognised as revenue based upon the proportion of establishment work performed by the reporting date.</p> <p>A significant proportion of the Group's revenues are derived from establishment fees.</p>	<p>We assessed the Group's revenue recognition policies and the directors' estimates of stage of completion of establishment procedures.</p> <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ Tested the establishment fees billing cycle on a sample basis ▶ Analysed the Group's estimates for total establishment costs and forecast costs to complete the establishments, which included consideration of the historical accuracy of such estimates

Revenue recognition for establishment fees involves judgement, with estimates required to assess the likely total costs of the establishment, the stage of completion of the establishment procedures at the reporting date and the contractual terms and conditions of the underlying contracts.

The Group's disclosures with respect to revenues for establishment fees are included in Note 1 *Summary of significant accounting policies*, Note 2 *Revenue and other income*, Note 17 and 21 *Unearned income* to the financial report.

- ▶ Made inquiries of the Group as to any changes to forecast costs from the prior period
- ▶ Tested the accuracy of the computation of revenue recognition, on a sample basis
- ▶ Assessed the contractual terms and conditions of agreements, on a sample basis
- ▶ Assessed the Group's accounting policies and the adequacy of the related disclosures in the financial report.

4. Contingent consideration on the acquisition of Santalis and ViroXis

Why significant

A component of the purchase consideration for each of the acquisitions of Santalis Pharmaceuticals ('Santalis') and ViroXis Corporation ('ViroXis'), now Santalis Healthcare Corporation) is contingent upon certain milestones and performance criteria, as disclosed in Note 19 *Financial Liabilities*. The contingent consideration is required to be recorded at fair value at each reporting period.

A probability weighted discounted cash flow method has been used to determine the fair value of the contingent consideration. This valuation incorporated the fair value of the Group's option to settle part of the contingent consideration in shares.

The valuation by the Group involved significant judgement, with estimates made to assess the likely outcome of performance, product success, market penetration, discount rates, exchange rates and the Group's share price.

How our audit addressed the key audit matter

We assessed the discounted cash flow calculation which included the consideration of the operational status, budgets and forecasts of the underlying businesses.

Together with our valuation specialists, we analysed evidence to support the Group's assumptions used in the determination of the contingent consideration fair value.

We considered the sensitivity of the contingent consideration valuation to reasonably possible changes in the underlying key assumptions and considered whether the disclosures detailed in Note 19 *Financial Liabilities* were adequate in the circumstances.

5. Consolidation of Managed Investment Schemes

Why significant

At year end, an assessment was made by the Group to determine whether it controlled any of the Managed Investment Schemes, for accounting purposes.

Judgement was applied by the Group in determining whether control exists.

How our audit addressed the key audit matter

We assessed the Group's consolidation accounting policies against the requirements of Australian Accounting Standards.

In determining the Group's exposure to variable returns from these Schemes, the Group's direct and indirect interests were considered and converted into a measure of the Group's overall effective economic interest in the Scheme.

As disclosed in Note 1.4(w) *Significant accounting judgements, estimates and assumptions*, where this economic interest is 30% or more, the Group is considered to have control over the Scheme and the Scheme is consolidated into the results of the Group.

We performed a recalculation of the Group's evaluation of its effective economic interest in each Managed Investment Scheme, and reviewed relevant contractual agreements and other relevant information.

6. Deferred lease and management fees

Why significant

Deferred lease and management fees are recognised as intangible assets on the consolidated statement of financial position. The Group carried \$107.818 million in deferred lease and management fees on the consolidated statement of financial position at 30 June 2017.

Growers may elect to defer or pay the annual lease and management fees payable to the Group. Where payment is not made, the Group is entitled to an agreed percentage of the future gross harvest proceeds from those grower plantations, in respect of each year in which the lease and management fees are deferred.

Deferred lease and management fee intangible assets are measured based on the best estimate of the fair value of the consideration receivable.

An impairment assessment is performed to determine whether the carrying value of the intangible asset exceeds its expected recoverable amount. The impairment assessment is undertaken using the same assumptions and applying the same key estimates as are used for the biological asset valuation and therefore involves significant judgement. Refer to Note 12 *Intangible Assets and Goodwill* to the financial report.

How our audit addressed the key audit matter

We assessed the Group's accounting policies for deferred lease and management fees.

We performed a recalculation of the Group's deferred lease and management fees, including an assessment of the movements in the balance from the prior period, and review of relevant contractual agreements and other information.

We analysed evidence to support the Group's impairment assessment for deferred lease and management fees and assessed whether the assumptions and estimates applied in the determination of the recoverable amount were consistent with those applied in the biological assets valuation.

We considered the adequacy of the disclosures in the financial report.

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

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the directors' report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

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

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Quintis Ltd for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



D S Lewsen
Partner
Perth

14 November 2017

CONSOLIDATED HISTORICAL STATISTICS

Quintis Ltd's consolidated results for the year ended 30 June		2017	2016	2015	2014
Total revenue from services	(\$'000)	60,103	131,820	109,880	105,885
Revenue from products sales	(\$'000)	39,289	29,854	27,662	20,450
Gain on tree valuation / deferred revenue	(\$'000)	(324,321)	93,333	173,989	85,270
Other revenue	(\$'000)	15,129	13,788	13,625	8,812
Earnings before interest & tax	(\$'000)	564,145	151,997	180,633	135,946
Comprehensive Net profit after tax	(\$'000)	(421,433)	90,385	113,650	82,802
Earnings per share (basic)	(cents)	(107.00)	25.66	34.66	28.93
Return on shareholders equity	(% pa)	(132.88)	12.10	19.78	17.76
Dividend per ordinary share	(cents)	0.00	3.00	3.00	3.00
Dividend franking	(% pa)	N/A	100	100	100
Dividend payout ratio	(%)	0.00	12.88	8.63	11.74
Financial ratios					
Net tangible assets per share	(cents)	36.36	128.29	133.12	112.07
Net interest cover	(times)	(18.22)	5.00	7.95	6.65
Net Debt / equity ratio	(%)	97.20	22.15	27.27	15.14
Gearing ratio (net debt / debt + equity)	(%)	49.29	18.13	21.43	13.15
Current asset ratio	(times)	0.28	2.60	2.19	1.84
Balance sheet data as at 30 June					
Current Assets	(\$'000)	108,407	248,226	210,170	187,779
Non-current assets	(\$'000)	764,986	1,243,731	942,890	732,331
Total assets	(\$'000)	873,393	1,491,957	1,153,060	920,110
Current liabilities	(\$'000)	381,886	95,403	95,890	102,304
Non-current liabilities	(\$'000)	174,358	649,332	482,647	351,479
Total liabilities	(\$'000)	556,244	744,735	578,537	453,783
Net Assets	(\$'000)	317,149	747,222	574,523	466,327
Shareholders' equity					
Share capital	(\$'000)	284,109	280,827	188,948	184,964
Reserves	(\$'000)	14,425	19,368	18,450	17,501
Retained profits / (accumulated losses)	(\$'000)	18,614	447,027	367,125	263,862
Total shareholders equity	(\$'000)	317,149	747,222	574,523	466,327
Other data as at 30 June					
Company status		Listed Public	Listed Public	Listed Public	Listed Public
Fully paid shares	(000's)	390,292	388,090	326,983	324,157
Number of shareholders		7,593	7,276	6,575	5,673
Quintis' share price:					
- years high	(cents)	1.83	1.85	2.24	1.88
- years low	(cents)	0.30	1.11	1.17	0.43
- close	(cents)	0.30	1.41	1.61	1.65
Market Capitalisation	(\$'000)	115,136	547,207	526,443	534,860

ADDITIONAL SECURITIES EXCHANGE INFORMATION

AS AT 3 NOVEMBER 2017

Twenty Largest Shareholders

Shareholder	Number	% of issued capital
HSBC Custody Nominees (Australia) Limited	78,327,889	20.07%
J P Morgan Nominees Australia Limited	33,164,412	8.50%
Domenica Nominees Pty Ltd	24,867,621	6.37%
BNP Paribas Noms Pty Ltd	19,390,690	4.97%
Citicorp Nominees Pty Limited	12,666,738	3.25%
Steynton Nominees Pty Ltd	7,775,427	1.99%
CS Third Nominees Pty Limited	6,955,313	1.78%
RBC Investor Services Australia Nominees Pty Limited	5,366,000	1.37%
G Harvey Nominees Pty Limited	4,383,524	1.12%
UBS Nominees Pty Ltd	3,864,135	0.99%
Mr Julius Luke Matthys	3,243,118	0.83%
Mr Ronald Eacott	3,235,600	0.83%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	3,043,651	0.78%
CS Fourth Nominees Pty Limited	3,005,806	0.77%
BNP Paribas Nominees Pty Ltd	2,013,135	0.52%
Kimrick Pty Ltd	1,935,384	0.50%
Mr Ian Clements	1,614,755	0.41%
Mr Rodney Owen Duncan & Mrs Karen Louise Duncan	1,437,030	0.37%
Mr Andrew John Offen & Mrs Izumi Offen	1,400,000	0.36%
Valkar Holdings Pty Ltd	1,375,000	0.35%
Total	219,065,228	56.13%

Number of Shares and Shareholders

390,291,753 fully paid ordinary shares are held by 7,587 shareholders.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

ADDITIONAL SECURITIES EXCHANGE INFORMATION

AS AT 3 NOVEMBER 2017

Distribution of Shareholders

Range	Total Holders	Total No. Of Shares	% of issued capital
1 to 1,000	1,152	509,364	0.13%
1,001 to 5,000	2,314	6,739,901	1.73%
5,001 to 10,000	1,304	9,992,215	2.56%
10,001 to 100,000	2,511	78,894,451	20.21%
100,001 and Over	306	294,155,822	75.37%
Total	7,587	390,291,753	100.00%

There are 1,616 shareholders with less than a marketable parcel (determined using closing price of 29.5 cents on 13 May 2017).

Substantial Shareholders (greater than 5%)

The names of the substantial shareholders listed in the holding company's register as at 3 November 2017 are:

Shareholder	Number	% of issued capital	Based on Substantial Shareholder Notice Filed on
Frank Wilson	48,860,285	12.52%	18-Oct-17
FMR LLC	23,463,377	6.01%	16-May-17
BlackRock Group	20,073,074	5.14%	12-May-17
Dimensional Entities	19,518,764	5.00%	16-Mar-17

Unquoted equity securities shareholdings greater than 20%

Warrants (Expiring 15 July 2018 Exercise Price \$1.28)	Number
Cede & Co	54,298,240

Other Information

Company Secretary

Simon Storm and Quentin Megson

Principal Registered Office

The Old Swan Brewery
Level 2, 171-173 Mounts Bay Road
Perth WA 6000

Share Registry

Link Market Services Limited
Level 12, QV1 Building
250 St Georges Terrace
Perth WA 6000

Stock Exchange Listing

Quotation has been granted for all of the ordinary shares of the company on the Australian Securities Exchange.