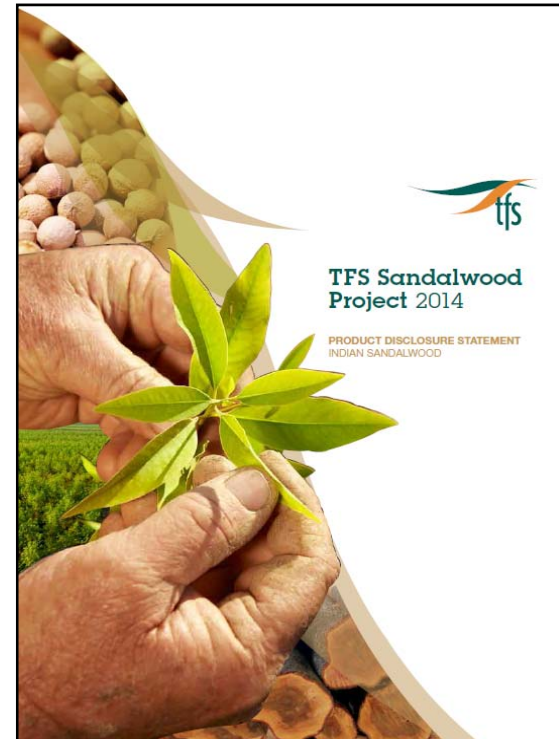




TFS Sandalwood Project 2014



Vertically
Integrated
Sandalwood
Company



Welcome & Agenda

1. Introduction

2. Indian Sandalwood

- Markets
- Demand / Supply Dynamics
- Price Trends

3. TFS Corporation

- Vertically Integrated Business Model
- Plantations, Management & Expertise
- The Past 12 months
- Competitive Advantages

4. TFS Sandalwood Project 2014

- Details
- Dealing with FOFA
- Grower Protection
- Research
- Finance

5. Case Studies

- Tax Effective Applications

6. Questions & Close



TFS Sandalwood Project 2014 - Why?



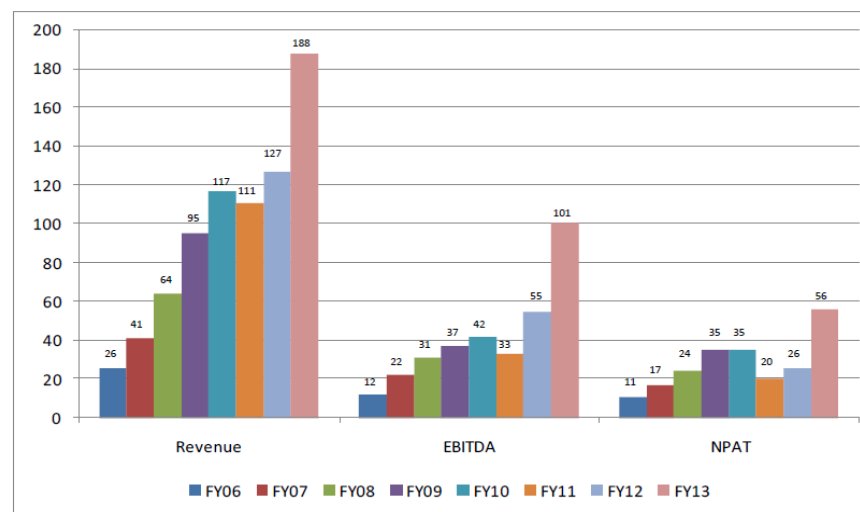
- ✓ High value commodity with exceptional demand-supply dynamics
- ✓ Multiple products / Multiple markets
- ✓ TFS - World's leading Sandalwood company
- ✓ Very strong financial position - low reliance on MIS sales for revenue / profit
- ✓ Market Capitalisation ~A\$500 million
- ✓ Very high barriers to entry
- ✓ Investor protections
- ✓ Fully tax deductible investment
- ✓ A financed investment releases significant cash into the investors financial system

Who is TFS?

TFS is the global leader in sustainable Indian Sandalwood plantation cultivation & management, processing and sales & distribution

- Founded in 1997, ASX listed 2004 (ASX: TFC)
- Vertically integrated Indian Sandalwood company
- Strong financial position with diversified revenue base
- Uniquely positioned to capitalise on global supply / demand dynamics
- First commercial harvest Sept '13

Historical Financial Performance



Capital Structure

Share Price (7 Mar '14)	\$1.71 (↑ ~200% in past year)
Market Capitalisation (7 Mar '14)	\$483m
Earnings per share (1H14)	1.16 cps
NTA per share	80c
Gearing (net debt / net debt + equity)	28%

TFS added to
S&P / ASX 300 Index
on 21 March '14

What is Indian Sandalwood?

One of the worlds oldest traded commodities

- Traded commodity for over 2,000 years and declared a royal tree in India in 1792
- Multiple Products
- Multiple Markets
- Heartwood found at the core of Indian Sandalwood has a variety of applications and end markets

— Heartwood

- Religious worship & consumer products
- Annual price growth >15% pa since 1991

— Sandalwood Oil

- Fragrances & pharmaceutical products
- TFS achieving Oil sales at an 80% premium to prevailing Spot Price

Heartwood in TFS Harvested Indian Sandalwood



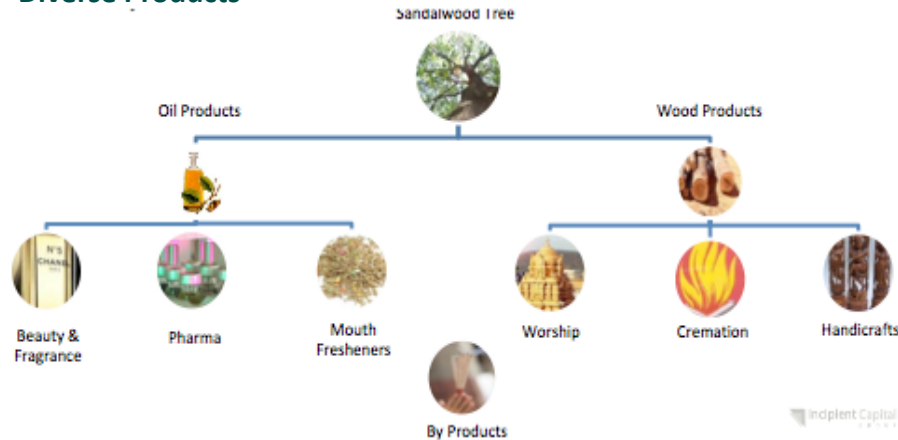
Consumer products using Indian Sandalwood



Demand – Multiple Products / Multiple Markets

Historical demand for Indian Sandalwood heartwood and oil expected to continue

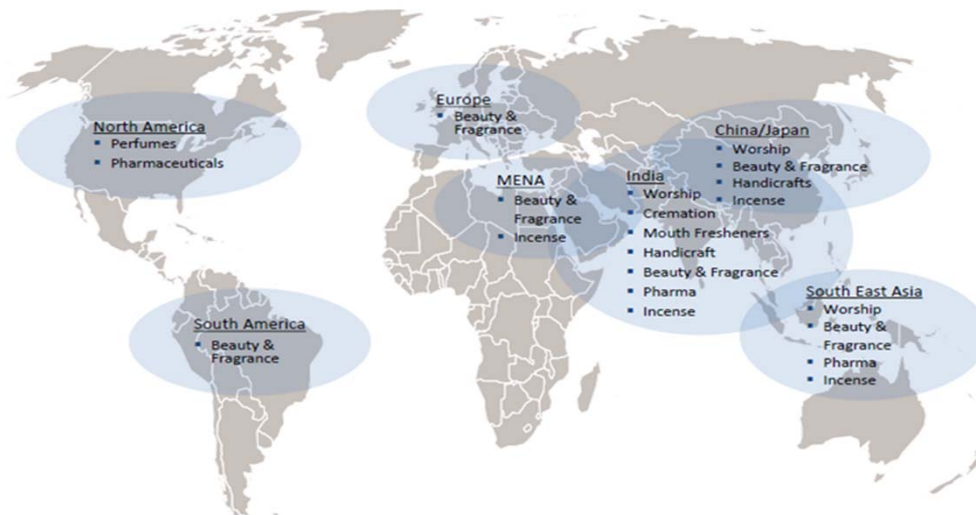
Diverse Products



- Global demand currently estimated at ~24,000 tonnes pa

- Oil Markets:
 - USA - Pharmaceutical sector
 - Europe - Cosmetics industry
 - India / MENA – Mouth fresheners and Pan Masala products

Global Markets

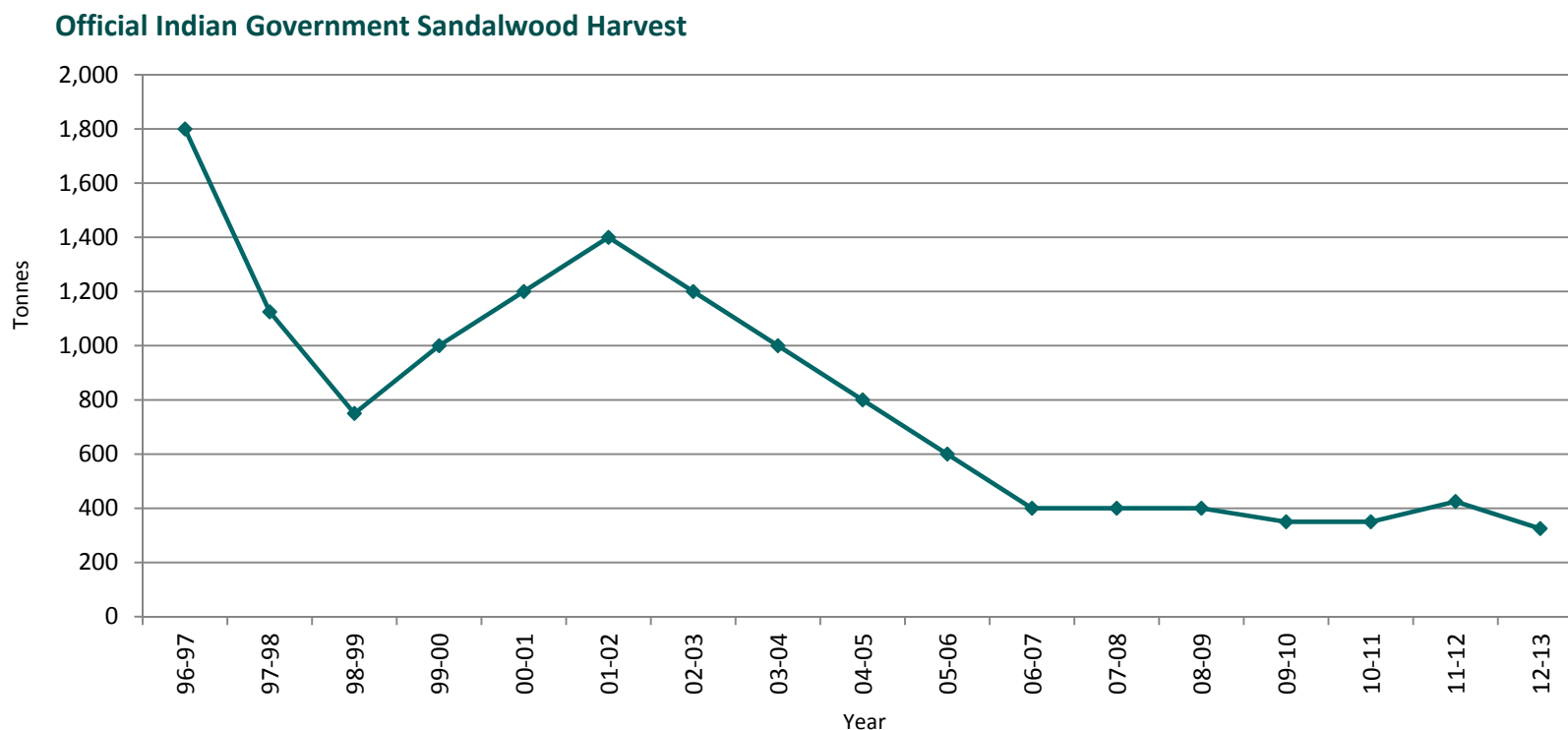


- Heartwood Markets:
 - India / MENA – Cultural / religious markets
 - China – Manufacturing sector

Supply – a long term downward trend

Depleted global supply with lack of commercial plantations

- Global supply depleted through over harvesting of native stands and lack of a sustainable plantation industry
 - Indian Government export ban
 - “Vulnerable” species on the World Conservation Union’s Red List
- Indian Government has restricted its annual harvests due to concerns over sustainability



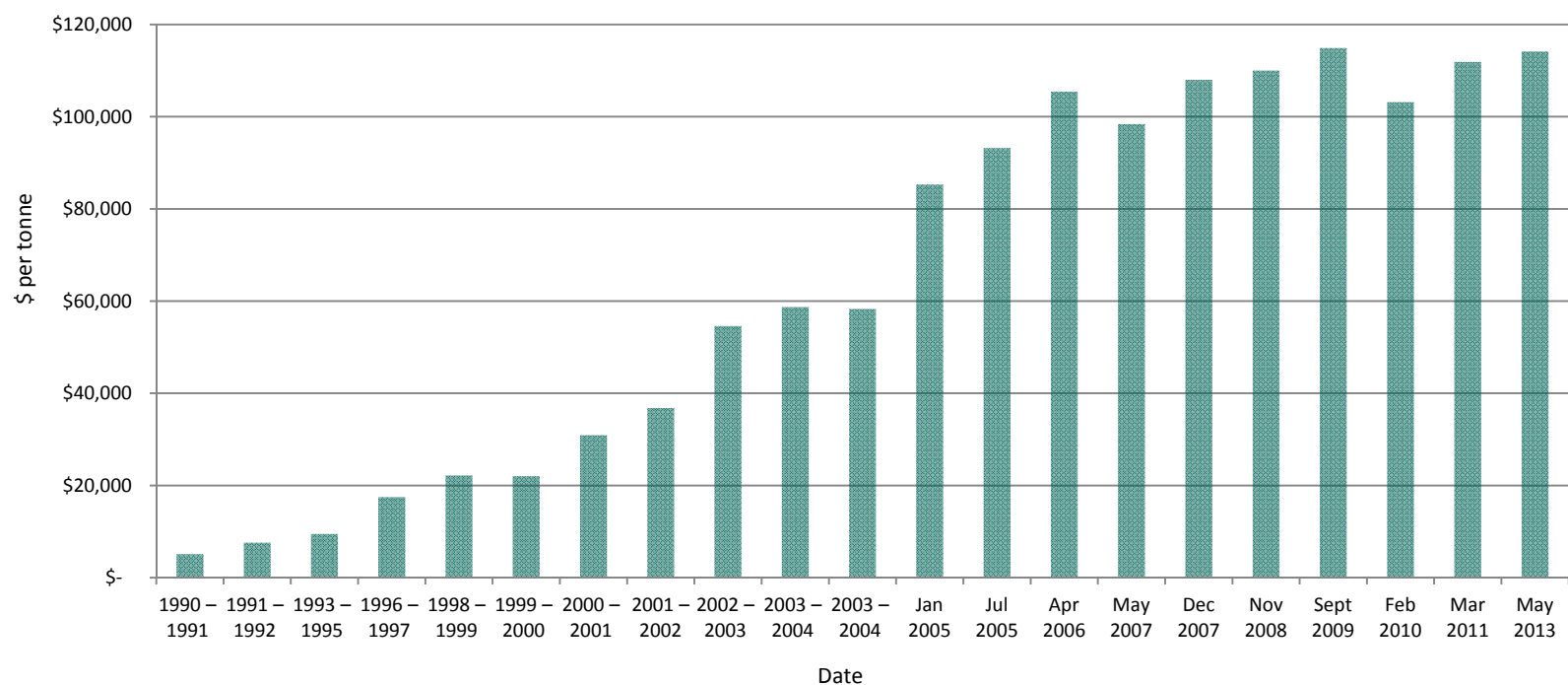
Source: H.S. Anantha Padmanabha, Expert Market Report, August 2013

Heartwood Pricing – markets drive inevitable outcomes

Demand / supply imbalance creates market tension, pushing prices higher

- **Heartwood:** A\$5,100 per tonne in 1991 to A\$114,000 per tonne in 2013

Indian Sandalwood Heartwood (A\$'000 per tonne)

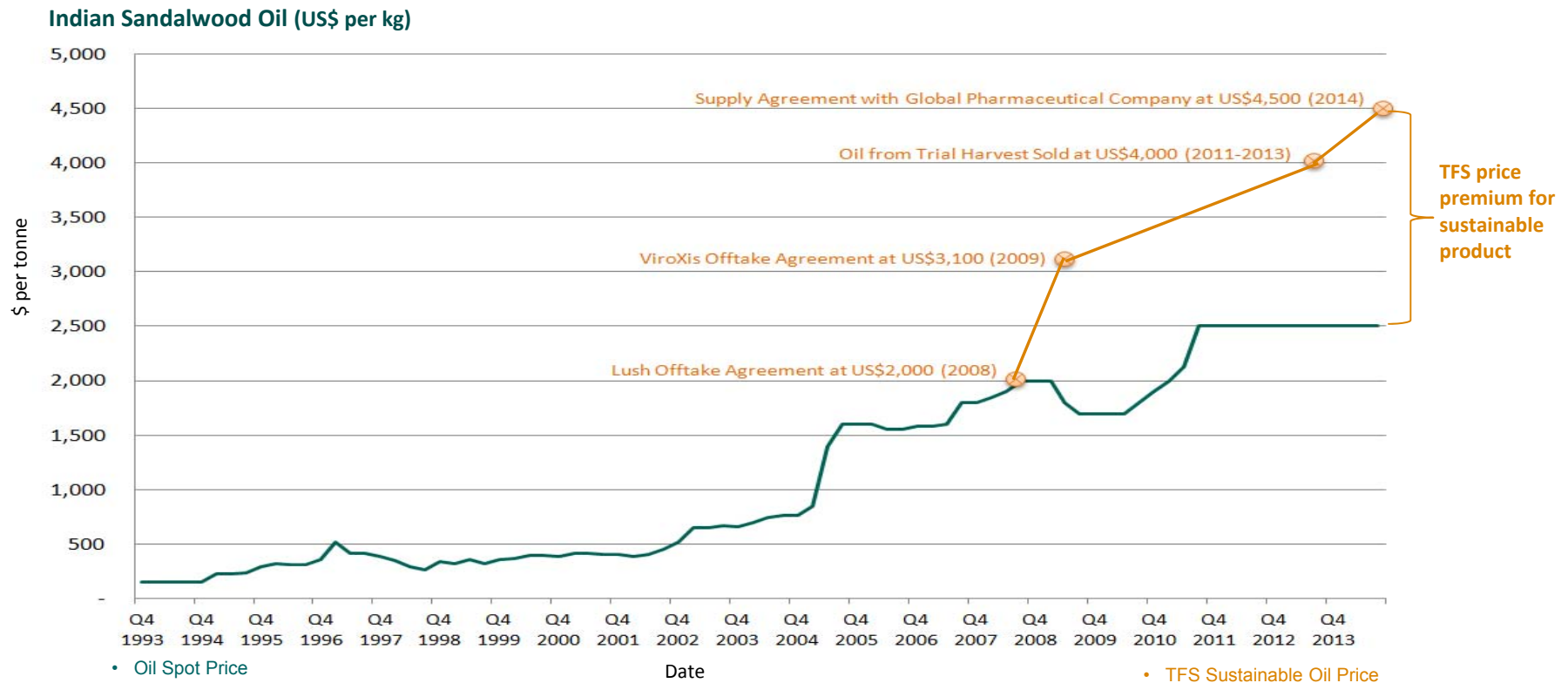


Source: H.S. Anantha Padmanabha, Expert Market Report, August 2013

Oil Pricing – same fundamentals, same results

Demand / supply imbalance creates market tension, pushing prices higher

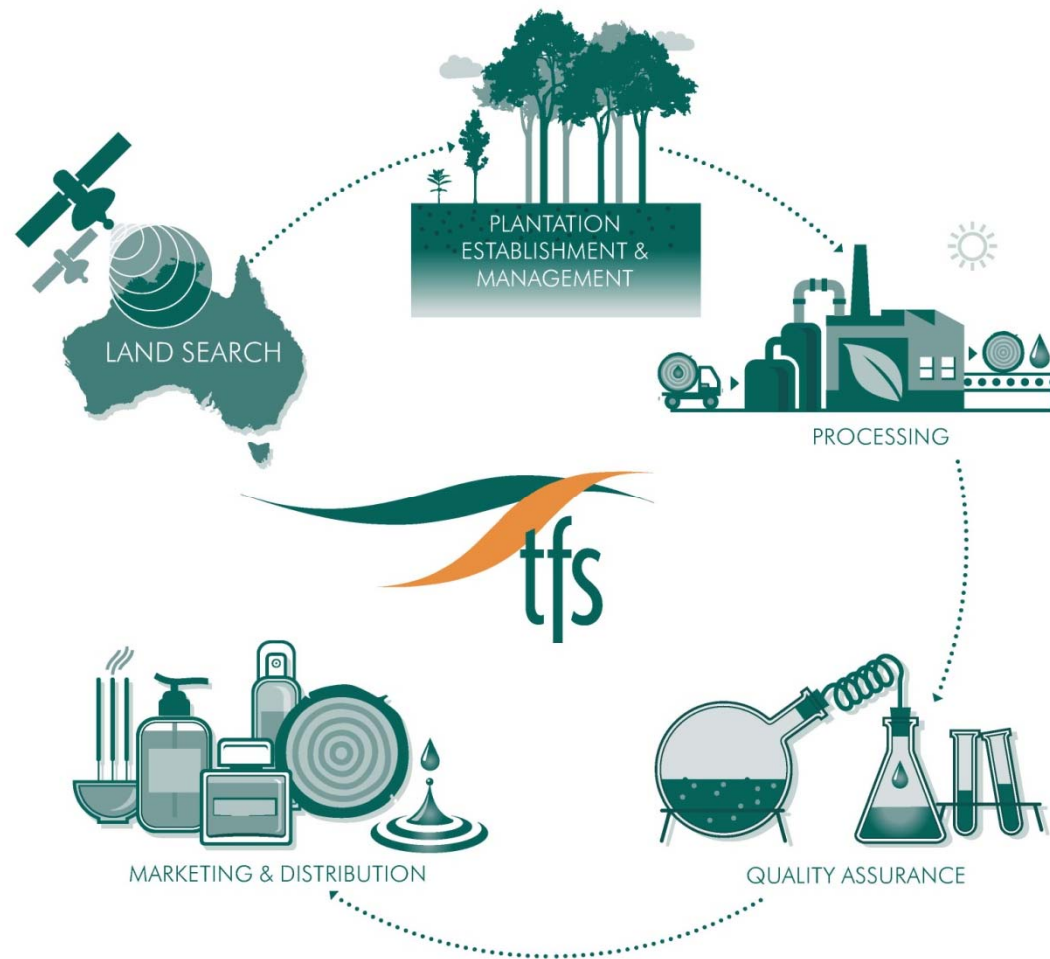
- **Oil:** US\$200 per kg in 1993 to US\$2,500 per kg in 2013
- TFS exclusive Oil supply agreement with global partner at **US\$4,500 per kg** - premium for sustainable supply / absence of alternative sources (first order of 100 kg filled)



Source: UK Ledger

A fully integrated business model

The 'Soil to Oil' approach enables control of supply, quality and price



Plantation assets

Strategically located plantation assets across Northern Australia with significant land bank for future growth

- TFS
 - ~7,600 ha plantations under management
 - ~2,500 ha unplanted land bank
 - ~3,000 ha land under conditional contract
- Geographic Diversification
 - Ord River Irrigation Area (WA): 5,665 ha (~75%)
 - Burdekin (Queensland): 802 ha (~10%)
 - Douglas Daly / Katherine (NT): 1,156 ha (~15%)
- Ownership Allocation
 - Retail Investors: ~31% (15 years of projects)
 - Institutional Investors: ~37% (Beyond Carbon)
 - TFS: ~32% (owned outright or deferred interest)

Geographically diversified plantation assets



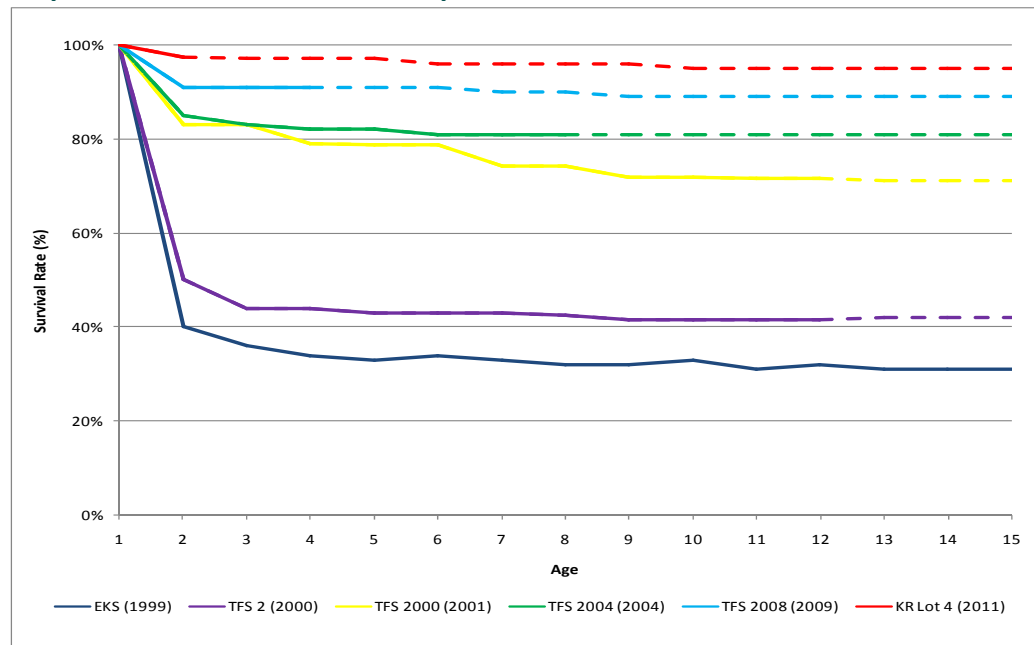
Plantation management

Sandalwood specialists at TFS have continued to refine silviculture techniques

- Plantations require expert management and meticulous maintenance processes
- Operations fine-tuned to maximise yield and embedded value of plantations
- 17 years plantation IP reflected in significantly improved survival rates
- Genetic engineering of seed stock has improved tree quality (yield)



Improved survival rates of TFS's plantations over time



Since TFS 2013 ...

Developments since June 2013 delivering the 'Soil to Oil' value chain

Financial

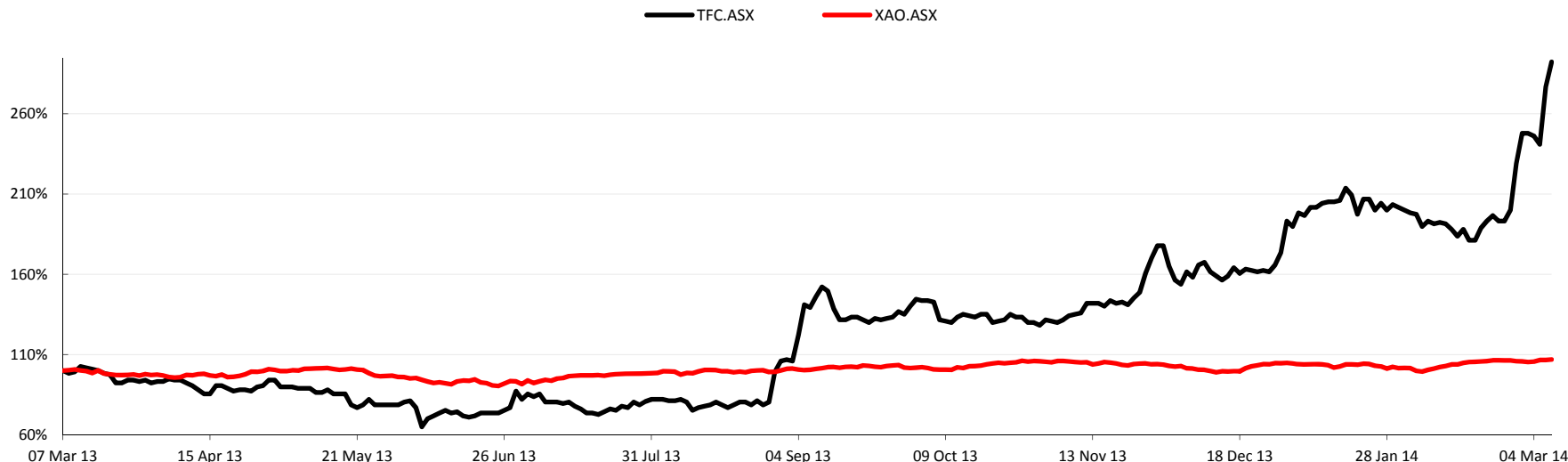
- Plantation Sales: 1,615 ha (↑ 132% on FY12 - 693 ha)
- NPAT: \$55.7m (↑ 115.1% on FY12 - \$25.9m)
- Revenue: \$187.7m (↑ 48.0% on FY12 - \$126.8m)
- Dividend: 3c per share (No dividend in FY12)

Strategic

- Appointment of independent Chairman and new CFO (implemented enhanced corporate governance framework)
- First commercial harvest (oil quality and content expectations confirmed)
- Announced long-term oil supply agreement with global pharmaceutical company (starting price of US\$4,500/kg)
- Delivers the final component of the 'Soil to Oil' value chain
- TFS ownership of plantations ~2,400 ha (aligning our interests with those of our plantation investors)

The market is listening ...

Price history and performance against the All Ordinaries for the period: 7 March '13 – 7 March '14



Research Report – 18 February

MOELIS & COMPANY

TFS Corp Buy

Pharma success will bring new +ve pricing pressure for Indian Sandalwood

Materials / Forest Products 18 February 2014

Company Update	
Ticker	TFC
Stock Price	\$1.060
Target Price	\$1.40
Forecast Total Return	32.1%

Company market data

Market Cap.	\$300.1m
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Moelis View

We remain positive on TFC given the 'embedded value' arising from its ownership of +2,400 ha of Indian Sandalwood plantations that we forecast to generate +\$2bn EBITDA over the next 15 years (at a constant heartwood price of \$100/kg); whilst harvest proceeds will only start making a material group contribution in FY17, within a decade EBITDA from its own plantations could exceed TFC's current market capitalisation, with pricing tension introduced by pharmaceutical success offering considerable greater profit potential.

Research Report – 27 February

CANACCORD Genuity AUS Update | 1
27 February 2014

TFS Corporation

TFC : ASX : A\$1.17

BUY

Target: A\$3.34↑

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COMPANY STATISTICS	
Share Price (A\$)	\$ 1.17
12 Mth H-L (A\$)	1.205-0.38
Market Cap (A\$m)	327
Enterprise Value (A\$m)	436
Issued Shares (m)	280
Options (various)	55.5
Cash (30/6/13)	42.6
Debt (30/6/13)	168.2

Forest Products

1H14 result and long term supply agreement

Investment Perspective

TFC's 1H14 results were accompanied by a long term supply agreement (>15 years) with one of the world's largest dermatology companies. For the first time, a price of US\$4,500/kg of oil was revealed with a capped inflation

Competitive advantages

Intellectual property developed by TFS over 15+ years places significant barriers to entry in front of potential competitors

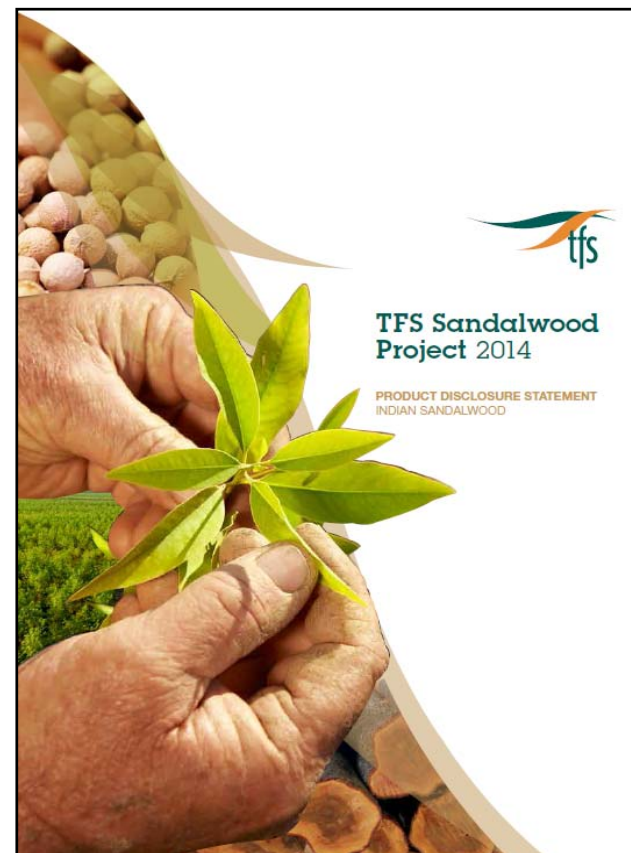
- TFS enjoys first mover advantage
- Price maker, not price taker
- Plantation IP from more than 15 years of Indian Sandalwood silviculture
- Export ban on Indian Sandalwood seed
- High sovereign and security risks elsewhere
- Vertically integrated business model
- Joint venture, supply and off-take agreements in place with end product users



TFS Sandalwood Project 2014

Fully tax deductible investment supported by ATO Product Ruling

- Minimum Investment: 1/12th hectare
- Growers own the trees and are entitled to the proceeds of “clean logs” after harvest
- 14 – 16 year investment horizon
- Minimum Initial Investment: \$7,425 (incl GST), comprising:
 - Establishment Fee: \$6,875 (incl GST)*
 - Upfront Fee: \$550 (incl GST)
- Finance available through TFS subsidiary, Arwon Finance
- Annual Fee & Rent:
 - Annual Fee: \$412 (incl GST)
 - Rent: \$138 (incl GST)
- Fees may be deferred at the discretion of the Grower
 - When deferred, TFS will become entitled to a share of the Grower’s interest in the Project



** Discounts available for investments of 1 hectare or more*

Dealing with FOFA

Legal advice that we can pay commissions to Advisers

- Three main FOFA reforms:
 - Opt-in and disclosure of “ongoing fee arrangements”
 - Best Interests Duty
 - Conflicted Remuneration
- **Conflicted Remuneration** has the greatest potential impact

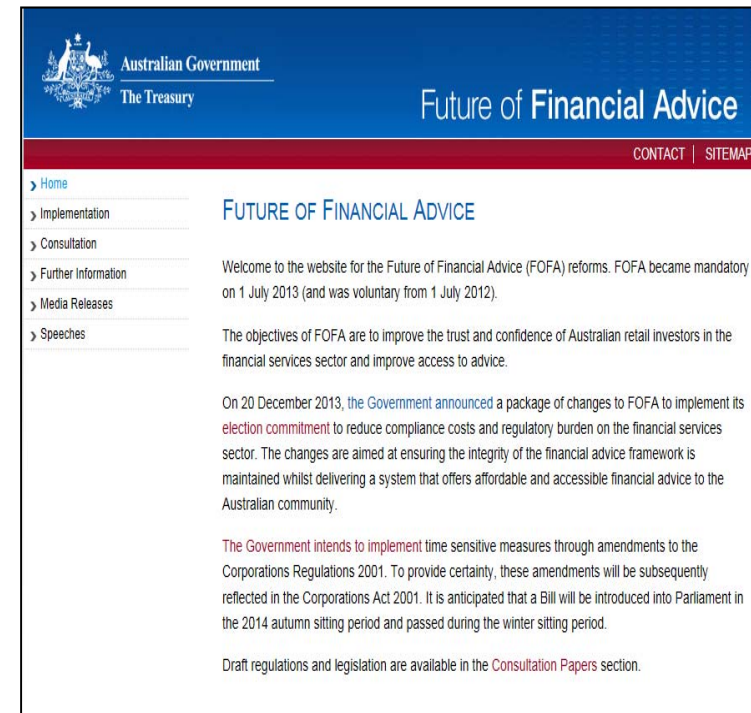
Solution:

Informed Consent

- TFS may pay an AFS licensee provided that the benefit is “**authorised**” by the client by giving their “**clear (informed) consent**”

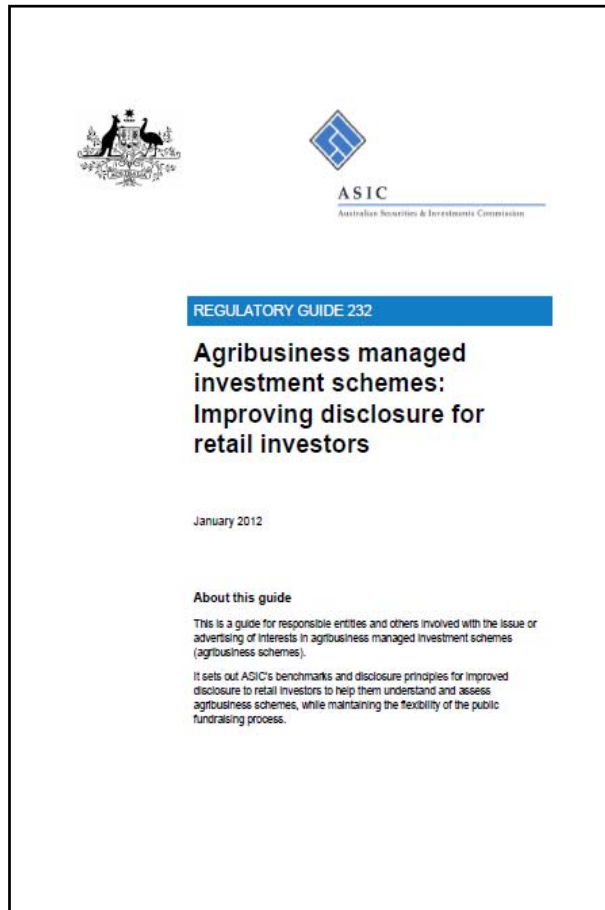
Practicalities

- Amended TFS 2014 Application Form



Grower Protections

TFS has an ongoing commitment to Grower protection



ASIC Benchmark & Disclosure Principles

- ASIC Regulatory Guide 232

Protections Prior to and During Planting

- 50% of Establishment Fee deposited with Independent Custodian and released progressively

Protections Post Planting

- One year of lease and management fees paid up-front and deposited with Independent Custodian
- Funds will be released in the final year of the Project to meet that year's management costs and rent obligations

Protecting Growers Interests

- All leases registered on property titles
- Peers typically only registered head leases

Independent Research

Project subject to Independent Assessment by Adviser Edge

- Adviser Edge rating: 4 ¼ Stars (out of 5)
- Commentary includes:
 - “... offers a medium to high-risk profile over the long-term, with strong returns estimated across the estimated range.”
 - “... should be considered part of a well-diversified portfolio.”
- Forecast Investor Returns: IRR 11.10% (Annual Investment Option) ¹
 IRR 12.15% (Annual Deferred Investment Option) ¹

1. Adviser Edge, Independent Assessment, TFS Sandalwood Project 2014 (March 2014)

Financing the Investment



Finance can be used to boost a Grower's cash position

- Finance available via Arwon Finance Pty Ltd (TFS subsidiary)
- Credit approval processes based upon normal bank lending criteria
- 2014 finance terms are unchanged from 2013

	12 Month Interest Fee Loan	Principal & Interest Loan
Min Deposit	20%	10%
Interest Rate	0%	10.95% Fixed
Term	1 year (July 2014 – June 2015)	Up to 7 years
Repayments	Deducted on 30 th day each month commencing July 2014	Deducted on 1 st day each month commencing August 2014
Loan Admin Fee	\$100	\$300 + 0.50% of the loan amt

Case Study 1 – Permanently Reduce Non-Deductable Debt

Use the tax refund generated by an investment in TFS 2014 to ...

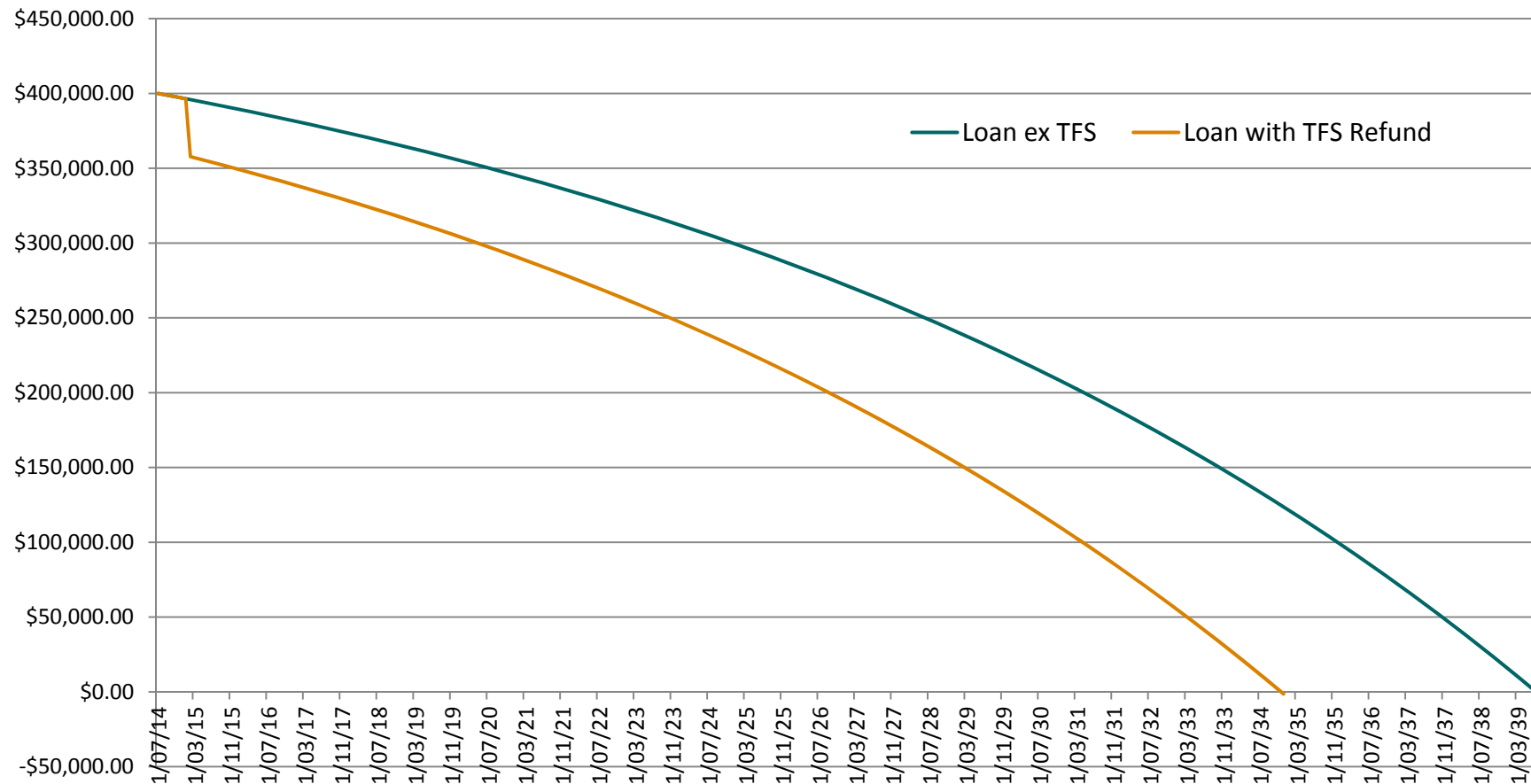
- ... permanently reduce non-deductible debt (eg: home loan)
- ... accelerate repayment of home loan / non-deductible debt
- ... enhance cash position by debt funding TFS investment (deductible debt)

	<u>Without TFS</u>	<u>With TFS</u>
<u>Investment</u>		
10 TFS Lots (incl GST)	\$0	\$74,250
<u>Tax Benefit of Investment</u>		
GST Refund	\$0	\$6,750
Income Tax Refund (@ 46.5%)	<u>\$0</u>	<u>\$31,388</u>
Total Tax Refunds	\$0	\$38,138
<u>Debt</u>		
Home Loan (non-deductible)	\$400,000	\$400,000
Less: Total Tax Refunds	<u>\$0</u>	<u>-\$38,138</u>
Reduced Home Loan	\$400,000	\$361,862
TFS Investment Loan (Deductible)	\$0	\$74,250
Total Debt	\$400,000	\$436,112
<u>Annual Interest Cost</u>		
Interest (@ 6%)	\$24,000	\$26,167
Less: Tax Refund on Deductible part (@ 46.5%)	<u>\$0</u>	<u>-\$2,072</u>
After Tax Interest Cost	\$24,000	\$24,095

Source: L.J. Gibson & Co Pty Ltd

Impact on Repayment of Non-Deductible Debt

One year's tax effective investing can have material long term benefits



- Loan repaid 4.5 years earlier

- Interest saving of \$104,942 over the life of the loan

Case Study 2 – Managing a CGT Liability

Use the tax refund generated by an investment in TFS 2014 to ...

- ... protect Capital Gain Taxable profits
- ... effectively “offset” tax payable on the capital gain
- ... enable use of the capital gain to its full potential

	<u>Without TFS</u>	<u>With TFS</u>
<u>Investment</u>		
6 TFS Lots (incl GST)	\$0	\$44,550
<u>Tax Benefit of Investment</u>		
GST Refund	\$0	\$4,050
Income Tax Refund (@ 46.5%)	<u>\$0</u>	<u>\$18,833</u>
Total Tax Refund	\$0	\$22,883
<u>Capital Gains</u>		
Gross Capital Gain	\$100,000	\$100,000
Tax Payable on 50% (@ 46.5%)	<u>-\$23,250</u>	<u>-\$23,250</u>
	\$76,750	\$76,750
Cash after Capital Gain & Tax Refund	\$76,750	\$99,633
<u>Debt</u>		
TFS Investment Loan (Deductible)	\$0	\$44,550
<u>Annual Interest Cost</u>		
Interest (@ 6%)	\$0	\$2,673
Less: Tax Refund on Deductible part (@ 46.5%)	<u>\$0</u>	<u>-\$1,243</u>
After Tax Interest Cost	\$0	\$1,430

Source: L.J. Gibson & Co Pty Ltd

Case Study 3 – Managing a Division 7a Problem

Use the tax refund generated by an investment in TFS 2014 to ...

- ... address a Division 7a issue arising when borrowing from a company for personal expenditure
- ... offset Division 7a dividend top up tax liability
- ... fund the top up tax liability

	<u>Without TFS</u>	<u>With TFS</u>
<u>Investment</u>		
12 TFS Lots (incl GST)	\$0	\$89,100
<u>Tax Benefit of Investment</u>		
GST Refund	\$0	\$8,100
Income Tax Refund (@ 46.5%)	<u>\$0</u>	<u>\$37,665</u>
Total Tax Refund	\$0	\$45,765
<u>Franked Dividend</u>		
Dividend Paid	\$200,000	\$200,000
Loan Offset	-\$200,000	-\$200,000
Dividend Top Up Tax (@ 23.6%)	<u>-\$47,143</u>	<u>-\$47,143</u>
	-\$47,143	-\$47,143
Cash after Dividend & Tax Refund	-\$47,143	-\$1,378
<u>Debt</u>		
Non-Deductible Debt	\$47,143	\$1,378
TFS Investment (Deductible)	<u>\$0</u>	<u>\$89,100</u>
	\$47,143	\$90,478
<u>Annual Interest Cost</u>		
Interest (@ 6%)	\$2,829	\$5,429
Less: Tax Refund on Deductible part (@ 46.5%)	<u>\$0</u>	<u>-\$2,486</u>
After Tax Interest Cost	\$2,829	\$2,943

Source: L.J. Gibson & Co Pty Ltd

Case Study 4 – Tax Effective Self Employed Super Contribution

Use the tax refund generated by an investment in TFS 2014 to ...

- ... enhance the tax effectiveness of self employed superannuation contributions
- ... “fund” balance of superannuation contribution

	<u>Without TFS</u>	<u>With TFS</u>
<u>Investment</u>		
5 TFS Lots (incl GST)	\$0	\$37,125
<u>Tax Benefit of Investment</u>		
GST Refund	\$0	\$3,375
Income Tax Refund (@ 46.5%)	<u>\$0</u>	<u>\$12,994</u>
Total Tax Refund	\$0	\$16,369
<u>Self Employed Superannuation</u>		
Cash Contribution	\$0	-\$25,000
Income Tax Refund (@ 38.5%)	<u>\$0</u>	<u>\$9,625</u>
	\$0	-\$15,375
Cash after Super & Investment	\$0	\$994
<u>Debt</u>		
Non-Deductible Debt	\$0	-\$994
TFS Investment Loan (Deductible)	<u>\$0</u>	<u>\$37,125</u>
	\$0	\$36,131
<u>Annual Interest Cost</u>		
Interest (@ 6%)	\$0	\$2,168
Less: Tax Refund on Deductible part (@ 46.5%)	<u>\$0</u>	<u>-\$858</u>
After Tax Interest Cost	\$0	\$1,310

Source: L.J. Gibson & Co Pty Ltd

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