



ASX Release

20 December 2012

SHAREHOLDER UPDATE

The Board of TFS Corporation Ltd (**TFS**) is pleased to provide its shareholders with an update following the Company's Annual General Meeting (**AGM**) on 16 November 2012 in relation to a number of issues that were raised by shareholders at the meeting and subsequently in various media articles. A full copy of a letter to be distributed to all shareholders is annexed to this announcement.

Requisition notice withdrawn

The Board is pleased to advise that it has received formal notification from Mr Blake Myles that he and certain other shareholder signatories have withdrawn the four notices that they had issued to the Company under section 249D and section 249E of the Corporations Act to move resolutions to remove Mr Frank Wilson, Mr Julius Matthys, Mr Stephen Atkinson and Mr Adam Gilchrist as directors of the Company and replace them with four new directors including Mr Myles and Mr Tim Croot, former directors of the Company.

Mr Myles has stated that it is still his intention to requisition an Extraordinary General Meeting of shareholders to remove Mr Wilson, Mr Matthys, Mr Atkinson and Mr Gilchrist notwithstanding that Messrs Wilson, Matthys and Atkinson were recently re-elected to the Board by Shareholders at the AGM. While your Board is disappointed that Mr Myles wishes to convene a further general meeting, to avoid wasting further time and resources dealing with invalid notices the Company has agreed to work with Mr Myles with the objective of ensuring that any further requisition notice received from Mr Myles will be free of defects.

TFS Sandalwood Project 2013 ARSN notification

The Board is pleased to announce that registration of the TFS Sandalwood Project 2013 as a managed investment scheme was confirmed by ASIC on 19 December 2012. The PDS for the 2013 MIS Project is available on the TFS website.

The 2013 MIS Project is the 15th successive Indian sandalwood project that TFS has launched. With a less competitive environment for MIS products and with TFS' first harvest set to deliver proof of concept for TFS growers, TFS is expecting significantly improved MIS sales in 2013.

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ABOUT TFS

TFS Corporation Ltd (ASX: TFC) is an owner and manager of Indian sandalwood plantations in northern Australia. As part of its vision to be a vertically integrated producer of finished sandalwood products, TFS owns a significant proportion of the plantations in its own right and in 2008 acquired Mount Romance Australia (Mount Romance), the Albany-based sandalwood processor and oil distributor.

TFS was founded in 1997 to exploit the success of government trials into the plantation growth of Indian sandalwood in the Ord River Irrigation Area (ORIA) of north-east Western Australia.

TFS's first planting was in 1999 and it now manages the largest area of Indian sandalwood plantation in the world, with approximately 6,500 hectares planted. TFS plantations are managed on behalf of both retail and institutional investors.

TFS will be commencing the first commercial harvest of its Indian sandalwood plantations in 2013.

The company listed on the Australian Stock Exchange in December 2004.

TFS is committed to adopting and maintaining the highest environmental and ethical standards in all aspects of its business. All plantations are grown on land that has previously been used for agricultural or horticultural production. As the first ORIA land owner to recycle its water, TFS was the winner of the 2006 State Regional Water Award. In 2011 TFS subsidiary Mount Romance was awarded the Platinum Award by the Water Corporation for its Water Efficiency Management Plan (WEMP).

In 2009, TFS entered the prestigious Forbes Asia Pacific's '*Best Under a Billion*', which recognises the Top 200 companies from more than 25,326 publicly-listed firms in the Asia/Pacific region with revenue of less than US\$1 billion.

ABOUT INDIAN SANDALWOOD

Indian sandalwood has a history as a tradeable commodity spanning thousands of years, but is now endangered due to the illegal harvest of wild trees throughout the world. As a result, Indian sandalwood is the world's most expensive tropical hardwood and continues to increase in price each year. The price of its heartwood has risen at a compounded rate of over 16.7% per annum since 1990.

Indian sandalwood oil is a globally important ingredient in fine fragrances, cosmetics and toiletries, incense sticks, and for medicinal purposes (aromatherapy and Chinese medicine) and the wood is used for high quality carvings.

Indian sandalwood has a well entrenched market throughout the world, particularly in India and China, two of the fastest growing economies in the world.



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Dear Shareholder,

UPDATE

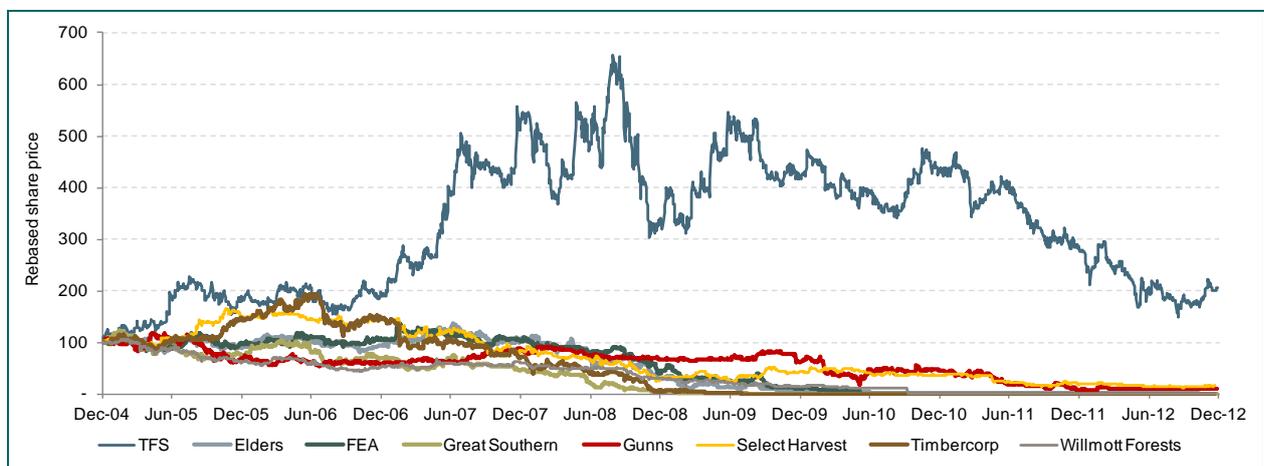
Following the Company's Annual General Meeting (AGM) on 16 November 2012 the Board would like to update all shareholders on a number of issues that were raised by shareholders at the meeting and subsequently in various media articles.

Performance of TFS relative to Peers

Given the recent turmoil in the forestry sector in Australia, it is important to briefly remind ourselves what distinguishes TFS Corporation from other forestry operators in Australia.

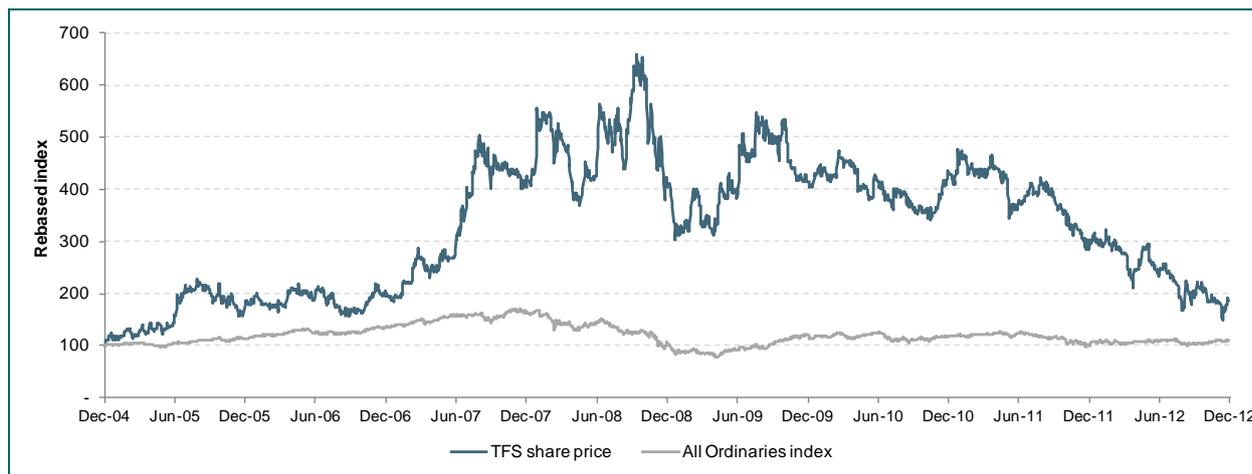
TFS has outperformed its past and present peers and is now truly the 'last man standing' in Australia as a result of almost all other timberland MIS managers collapsing and entering administration or liquidation, leaving growers with no assets and extremely limited prospects of any financial return on their investment or return of capital.

The chart below illustrates the performance of TFS against its major MIS peers since TFS listed in December 2004.



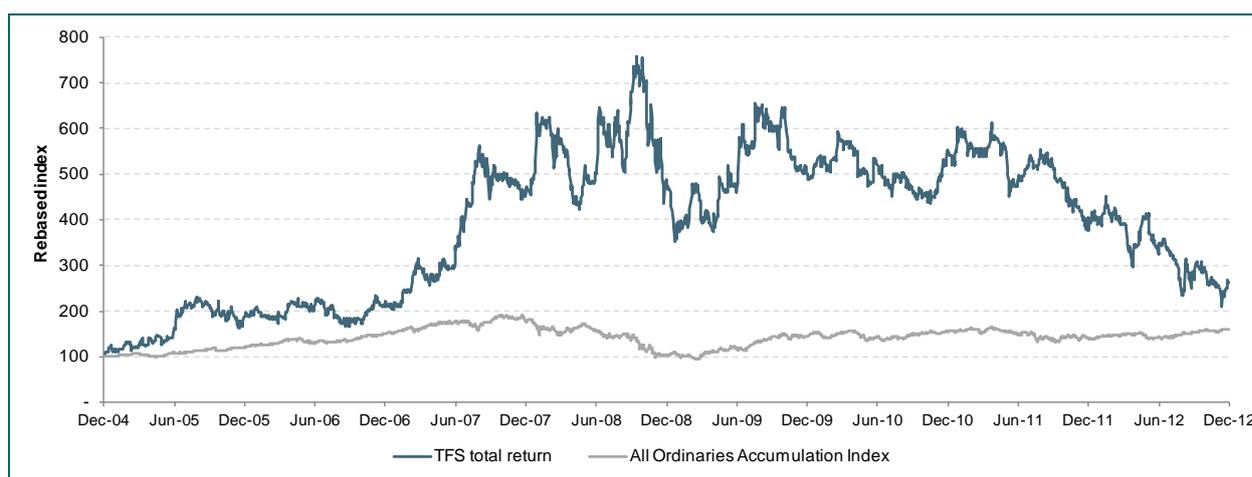
Source: IRESS as at 17 December 2012

Despite the recent performance of the TFS share price, TFS has outperformed the S&P / ASX All Ordinaries Index by 93% since it was listed in December 2004.



Source: IRESS as at 17 December 2012

In addition, incorporating dividends TFS has outperformed the ASX All Ordinaries Accumulation Index by 130% since listing.



Source: IRESS as at 17 December 2012

First Commercial Harvest

The Company is well positioned to undertake its first commercial harvest in late CY2013. This is a very significant milestone for the Company and considerable strategic planning is being undertaken to ensure its success.

The Board is confident that the pricing to be achieved for the sale of the Company's first harvested timber will significantly exceed the original PDS forecast prices. This confidence is based on price tension that is developing between the wood and oil markets for TFS sandalwood. Strong interest from the Chinese wood market in conjunction with current and emerging oil markets are spontaneously driving this tension. Therefore Growers in TFS' first managed investment scheme can expect a positive financial return despite a forecast plantation yield that is approximately 80% below that of TFS' more recent plantations.

The improvement in forecast plantation yield demonstrates how TFS has assiduously acquitted its core responsibility to its growers and has refined its intellectual property and silviculture techniques over time. It also demonstrates the embedded value of our plantations under management to TFS shareholders, MIS Growers, and Beyond Carbon investors in later schemes.

Beyond Carbon Program

As advised in the Chairman’s address at the AGM, Beyond Carbon wholesale investors have invested over \$180m in TFS Indian sandalwood plantations (including committed future expenditure and secondary market acquisitions) since this unique investment offering was first made in 2009. Due to the relatively complex manner in which TFS has traditionally recognised revenue on plantation establishment fees, together with long delays in some settlements, some confusion has arisen over the extent and success of the Beyond Carbon sales program.

The table below is designed to clarify the Beyond Carbon sales program to date. As previously announced, the Board believes that its decision to now recognise income from Beyond Carbon sales upon cash settlement will simplify our reporting of future Beyond Carbon sales for shareholders.

Beyond Carbon Project	Size (ha)	Recognised in Accounts	Cash Settlement
Project 1	378	FY09 and FY10	FY11
Project 2	186	FY10	FY11
Project 2	178	FY11	FY11 and FY12
Project 3	80	FY10 and FY11	FY12
Project 3	(304)	FY10 and FY11	investors defaulted now held on TFS balance sheet
Project 4	322	FY11	FY11
Project 5	410	FY10 to FY12	FY13
Project 6	118	FY11 and FY12	FY11
Project 7	580	FY12	<i>Expected to cash settle in FY13</i>
Total	2,252		

Without a doubt, the success of the Beyond Carbon sales program has saved TFS from the same fate as its erstwhile MIS peers, and has resulted in TFS being in a strong financial position today. The management of TFS led by Mr Wilson created the Beyond Carbon sales program in response to rapidly declining sales in the MIS industry.

Strategic Review Update

The Board initiated a Strategic Review in late August 2012 as the Board did not consider that the current trading price appropriately reflected the underlying value of the assets and business of the Company. It subsequently appointed global investment bank, Moelis & Company, to assist it in undertaking the review. As part of the strategic review, the Board has determined that the current MIS grower loan portfolio is a non-core asset of the Company and should be divested. The Board believes that the capital returned will be better utilised by either reinvestment in the group's operations or returned to shareholders.

The Board has appointed Moelis & Company to undertake a sale process in relation to the loan portfolio. This process is now underway.

The strategic review is on-going and is expected to be finalised in the first quarter of the 2013 calendar year. Shareholders will be informed of any key outcomes of the strategic review as they become available.

Board Structure & Independence

The departure of the Hon Richard Alston as our Chairman has raised considerable conjecture in the media. The resignation of Mr Alston from the Board was disappointing and came as a surprise. He did not provide any reason for his resignation.

As a result of Mr Alston's departure, the remaining Board members believed that Mr Wilson was the best credentialed director to assume the Chairmanship having been Chairman for 14 years prior to his retirement in November 2011. We can confirm that the Board is currently working towards appointing an independent chairman and other suitable directors, to add to the skill base of your current Directors and lead us through the next phase of TFS' evolution.

There has been some suggestion that your Board is not independent. The current Board composition of five directors, four of whom are considered independent in accordance with ASX corporate governance principles. The friendship amongst our directors has also come under media scrutiny. Friendship between directors is not a relevant factor in determining their independence. In any event friendship can be a good thing and is likely to lead to a more coherent and constructive Board than one where there is friction and animosity between directors.

Given the comments by Mr Myles' group about the importance of independent directors it is surprising that they are proposing that shareholders appoint Mr Tim Croot as a director. The Board does not consider that Mr Croot would qualify as an independent director as he and his associated entities receive more than \$3 million dollars annually (FY12) from TFS in payment of fees for services provided under contracts with TFS.

Perceived Board Unrest

There have been a number of comments in the press commenting on changes to the Board. We think it is useful to set out what changes have occurred in the last 18 months.

The Board composition at end of FY2011 was Frank Wilson (Executive Chairman), Timothy Croot (Executive Director), Ian Thompson (Executive Director), Ronald Eacott (Non-Executive), Blake Myles (Non-Executive) and Ian Murchison (Non-Executive).

With a desire for a move to a more Independent Board and to allow a natural re-generation of the Board, the following transitional changes took place:

July 2011 Blake Myles and Ian Murchison, (both 5 years on the Board) stood down to allow Richard Alston (Non Executive) and Adam Gilchrist (Non-Executive) to take their place.

November 2011 Frank Wilson resigned from the Board to focus on his Executive role as CEO. Jim Craig (Non-Executive) joined. Richard Alston became the Company's first Non-Executive Chairman.

December 2011 Jim Craig resigns, citing the work load and commitments of a Perth based company, whilst residing in Melbourne, plus increasing demands in his other unlisted investments as being too demanding. Julius Matthys (Non-Executive) is appointed in his place.

July 2012 Tim Croot and Ian Thompson (both Executive Directors) resign. Stephen Atkinson (Non-Executive) and Frank Wilson (Executive) join the Board.

October 2012 Richard Alston resigns from the Board. Frank Wilson becomes Executive Chairman.

Of the changes listed above, only two weren't planned as part of the regeneration and movement to a more Independent Board. Of these two unplanned changes, Jim Craig's reason for resigning is stated and Richard Alston has given no reason.

The current Board now has five (5) Directors, of which four (4) are Non-Executive and are considered to be Independent. The current Board consists of Frank Wilson (Executive Chairman), Stephen Atkinson (Non-Executive), Ronald Eacott (Non-Executive), Julius Matthys (Non-Executive) and Adam Gilchrist (Non-Executive).

Earlier Privatisation Approach

The facts concerning a private equity approach to TFS in April 2012 were covered in detail in our Chairman's AGM address. However given the level of media publicity since our AGM the Board believes they need to be repeated.

- The Board of TFS was approached by a substantial US based private equity fund in April 2012 with an incomplete, conditional, confidential and non-binding proposal to privatise TFS for \$0.85 cash per TFS share.
- The Company had previously been in communication with this fund as they had expressed interest in investing in the Company's wholesale Indian sandalwood project "Beyond Carbon".
- Upon receiving the approach for privatisation of TFS, the Board immediately established a Board Sub-Committee to handle the approach, chaired by the then Independent Chairman Richard Alston and comprising former director Mr Tim Croot, and current director Mr Ron Eacott. At this time Mr Wilson was not a director and took no part in the Sub-Committee or Board's deliberations.
- The Sub-Committee entered into a series of discussions with the proponent in relation to the proposal, but no formal written offer was provided to the Board.
- The Sub-Committee appointed financial and legal advisers to assist it in assessing the proposal and entering into discussions with the proponent.
- Based on the advice received the Sub-Committee and the TFS Board concluded that the proposal was reasonable and if a formal offer were to be received the Board would recommend that it be presented to the shareholders for their consideration;

- The proponent withdrew its proposal a number of weeks after it was received by the Board. The Board understands that the proponent withdrew for reasons including but not limited to, the deterioration in the global financial markets around Greece and the Euro and the declining TFS share price at the time. However it is important to note that the proposal was at no time a formal offer capable of acceptance by the Board, or in a form that could be put to the shareholders of the Company for their consideration.
- The Board believes the Sub-Committee acted properly in all respects concerning this process, as did Mr Wilson who was not a member of the Board and was excluded from the process.

Above all else, the fundamental point in regards to this or any like offer received by the Board, is that it can only ever proceed with the approval of shareholders in strict accordance with the requirements set down in the Corporations Act. It is and will always ultimately be you as shareholders who determine the fate of such a proposal.

The Board is pleased to confirm that it has now also settled the disputed financial advisory and legal fees relating to the private equity proposal incurred by the Sub Committee saving the Company over \$400,000.

The Board assures you that it is committed to enhancing shareholder value and the comprehensive strategic review that is currently being undertaken is an important part of achieving this.

Requisition Notices Lodged by Mr Myles

Despite a concerted campaign by a small group of shareholders led by Mr Blake Myles, each of the directors up for re-election at the General Meeting on 16 November 2012, being Messrs Wilson, Matthys, Eacott and Atkinson was comfortably re-elected. Notwithstanding the mandate received from shareholders, Mr Myles and his supporters continue to seek to undermine shareholder confidence in the Board and management. The Company has repeatedly asked Mr Myles to withdraw his requisition notice requesting a further general meeting to consider the removal of four current directors and the replacement by four new directors (including two former directors of the Company, Mr Myles and Mr Croot). Given it is only five weeks since shareholders voted at the Company's AGM to re-elect Messrs Wilson, Matthys, Eacott and Atkinson, the Board believes that such actions of Mr Myles and his supporters to hold another general meeting to vote on the election of the same directors appointed at the AGM plus Mr Gilchrist, are futile, and simply involve the Company in the unnecessary expense of calling another general meeting.

The Board has met with Mr Myles with the objective of dealing with Mr Myles' issues. The Board believes there are better ways of resolving his concerns rather than holding a further General Meeting. The Company has written on a number of occasions to Mr Myles indicating the Company's concerns with his Notice and requesting Mr Myles to withdraw the Notices. He has now agreed to do so but has signalled that he wants to issue a fourth Notice. While your Board is disappointed that he wishes to convene a further General Meeting, this is a right that the Corporations Act confers on shareholders who have a 5% interest the Company. Accordingly if the Notice meets the Corporations Act's requirements, a further General Meeting will be called to deal with the matters set out in the Notice. As the previous three Notices have failed to meet the requirements of the Corporations Act, in order to avoid further time wasting and diversions TFS has offered to liaise with Mr Myles with the objective of ensuring that any future Notice lodged by Mr Myles is not also defective so that no further time or company resources are wasted.

The current Board is stable and united which is essential for the efficient running of the Company's business, and the execution of its strategy to become the world's leading vertically integrated producer of sandalwood products. As noted above, the intention of Mr Myles and his supporters is to now force another set of changes to the Board by dismissing four directors including the key

executive Mr Wilson, and replacing them with four new directors including Mr Myles and Mr Croot. Such changes are likely to destabilize the Company, imperil the Company's revenue, and result in the Company being unable to pay a dividend in FY13 and beyond.

The overall effect of this action by Mr Myles and his supporters if successful, would lead, in the Board's view, to a significant deterioration in the Company's share price and operating performance.

Media Innuendo

The Board has spent a great deal of time recently responding to a number of allegations and assertions raised by Mr Myles and his supporters through various media channels. The Board is disappointed that Mr Myles and his supporters did not raise many of these issues at the Company's recent Annual General Meeting in front of all shareholders. This small group of shareholders led by Mr Myles continues to seek to undermine shareholder confidence in the Board and management team of TFS. These attacks on the Company can only negatively impact on the Company's share price, and have the potential to have a negative impact on the Company's capacity to improve MIS and Beyond Carbon sales. The Board notes that some of the media reporting has been quite misleading and believes that it is important for all shareholders to benefit from confirmation of the facts. A number of assertions are responded to below.

The Chairman allegedly failed to vote proxies at the AGM

It has been asserted by one shareholder that the Chairman did not vote a proxy in accordance with that shareholder's instructions. This assertion is false. The Board confirms that at all times the Chairman voted proxies in accordance with received instructions. In this particular instance, the Chairman did not receive any voting instructions from the shareholder and the shares concerned were not in the name of the shareholder but rather Mr Wilson's company. So there can be no question of Mr Wilson failing to vote the shares in accordance with a proxy given by the shareholder.

The Board allegedly solicited the private equity approach

Mr Myles and his supporters continue to assert that the Board solicited the private equity approach in April 2012. This is false.

Again, it must be pointed out that no proposal of this nature can proceed without the required approval of shareholders.

There is an alleged arrangement in place that the Chairman must be involved in any future private equity bids or takeovers

This is false. However it is common place that most private equity deals are conditional on key executives or management maintaining their involvement with the target if the bidder is successful.

A term of the Bond compels a future bidder to involve the Chairman in any takeover of the Company

This is false. There is no such term. However the Bond like similar instruments confers usual protections on bond holders against forced changes to the Board and management which occur against their consent.

Board Unity and Resolve to Return to Dividends

The Board welcomes the feedback it has received from Shareholders before, during and after the Company's AGM which in the main has been very constructive. Your current Board is united and cohesive. The Board will be active in improving its communication with shareholders, and is both resolute and confident of achieving an improved performance for all shareholders in FY13, with a priority being the aim of reinstating the payment of dividends in FY13.

The Board's focus remains on pursuing the significant growth opportunities available to the Company and ensuring that we reduce the gap between the current trading price of TFS shares (which has increased by nearly 40% since September 2012 under the current Board) and the inherent value of the Company.

Yours faithfully,



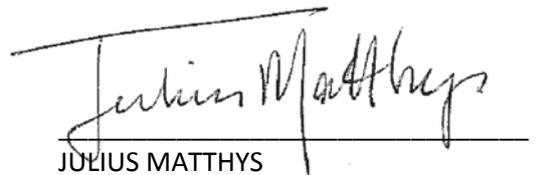
FRANK WILSON



STEPHEN ATKINSON



RONALD EACOTT



JULIUS MATTHYS



ADAM GILCHRIST