

Tasmanian Truffle Project No.3

Lonsec Agribusiness Research

July 2007



Tasmanian Truffle Project No. 3



About this Project:	July 2007
Location	Deloraine, Tasmania
Product	<i>Tuber melanosporum</i> Perigord Black Truffle
Target Project Size (Truffletlot size)	73 ha (0.1 ha approx)
Target Raising	\$5.5 million
Life of investment	25 years
Level of Risk	Moderate to High
Minimum outlay, * year 1	\$7,500
Minimum subscription	100 subscribers
Lonsec IRR(after tax)	
Range of possible outcomes	8.8% to 23.7%
Mid case	19.8%
Zero IRR scenarios	
Price falls by	83%
Yield falls by	84%
Yield and Price fall by	60%
Finance Available	No
Commissions & rebates	Up to 10% of Establishment fee plus 4% of shares
Offer close date	4 June 2008

*One Investor Interest at \$4,400 (including GST), Year 1 Management Fee at \$1,100 (including GST), plus 2,000 shares in Truffles Three Landco Ltd at \$1.00 per share.

Offer limited to Self Managed Superannuation Funds

The offer of investment made for Truffletlots in the Project and for shares in Truffles Three Landco Ltd is limited to entities defined as Self Managed Superannuation Funds as provided in section 17A of Superannuation Industry (Supervision) Act 1993 (SISA). No Truffletlots or shares will be issued to an entity that is not a Self Managed Superannuation Fund.

Summary of Lonsec Rating

The Tasmanian Truffle Project No. 3 has achieved an overall rating of Recommended.

- The Project achieved the highest major determinant rating for Product Sales and Marketing because of the strength of the Marketing Agreement already in place.
- The Project achieved the lowest major determinant rating for Business Strategy and Corporate Resources because of the low level of financial resources in the key entities.

The Project Plan

- The Tasmanian Truffle Project No 3 will grow the Perigord Black Truffle (*Tuber melanosporum*) at Deloraine, Tasmania over 25 years, targeting production of 7kg of Truffle pa at maturity per Truffletlot at an average price of \$1,450/kg.
- This is a stapled offer. The minimum investment in the project is one Investor Interest at \$4,400 (incl GST), Year 1 Management Fee at \$1,100 (incl GST), plus 2,000 shares in Truffles Three Landco

Ltd (the land owner) at \$1.00 per share, for a total amount of \$7,500.

- The Truffles will be sold to Friend and Burrell Fine Foods under a 10 year (plus 3 x 5 year extensions) Marketing Agreement.

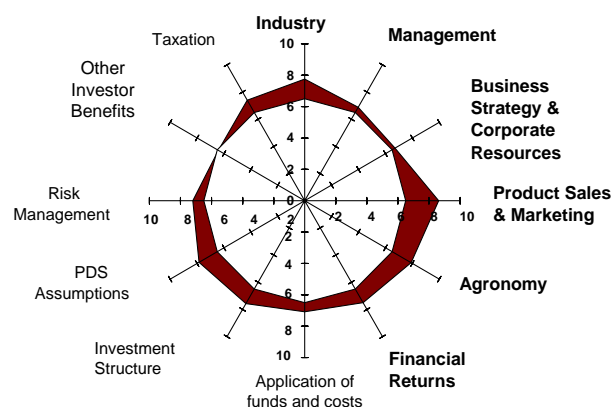
Key Project Drivers

- The Black Truffle is one of the most highly priced food items. Restaurateurs have paid up to \$3,000/kg for Australian grown Black Truffles.
- Demand for Black Truffles continues to increase as supply of natural forest grown Black Truffles from Europe is diminishing.
- Black Truffles mature in the winter. In the Southern hemisphere this is June, July and August. At this time, the Northern hemisphere tourist season is at its peak, but there are no fresh locally grown Black Truffles. This presents an opportunity to export Australian grown Black Truffles to Europe, North America and Asia at the peak of seasonal demand.
- Tim Terry, a director of Managed Products Australia Ltd, the primary manager and RE of this Project, has extensive experience. A Truffière owned by Terry produced Australia's first Black Truffles in 1999.

Key Project Risks

- Slow or inadequate development of the mycorized zone around the host trees.
- Quality of the Truffles may be lower than expected.
- Invasion of the Truffière by undesirable species.
- Insolvency or default of Operational Manager.
- Loss of key staff with the necessary trufficultural skills.

Lonsec Ratings – Critical Determinants



The shaded area represents the amount by which the investment ratings exceed minimum approval score of 6.5.

Triggers for Review

After the Research Report has been completed, Lonsec has asked to be notified of any significant changes, including supplementary offer documents, that materially or may materially affect the basis of our recommendation. This will allow Lonsec to reassess the recommendation.

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1. Lonsec Scope and Approach

Lonsec Research (Lonsec), a division of Lonsec Limited, has prepared this report for the Directors of Managed Projects Australia Ltd (MPA).

1.1. Scope

The research process has included, but is not restricted to, the Lonsec Ratings Process using over 100 areas of assessment to rate the 12 critical determinants of an agribusiness investment. Lonsec has not engaged a solicitor to review the Project agreements, legal structure and MPA's due diligence process. Where applicable, Lonsec has commented on issues arising from a limited review of specific agreements, as noted in the report.

The offer of investment made for Trufflelots in the Project and for shares in the Company is limited to entities defined as Self Managed Superannuation Funds as provided in section 17A of Superannuation Industry (Supervision) Act 1993 (SISA).

1.3. Sources of Information

This report has been prepared by Lonsec Agribusiness Research (Lonsec) for the Directors of MPA. Lonsec has relied on information requested from MPA, the PDS and Prospectus dated 4 May 2007, the Supplementary PDS and Supplementary Prospectus dated 17 May 2007 and the Supplementary PDS (SPDS2) and Second Supplementary Prospectus dated 10 July 2007, and information obtained from discussions with Project directors, management and key employees.

Lonsec has utilised information from the following sources in the course of preparing this report:

Project Agreements

- | | |
|--|---|
| • Licence Agreement | MPA and Investor |
| • Truffière Management Agreement | MPA and Investor |
| • Tasmanian Truffle Project No 3 Constitution | |
| • MPA Compliance Plan for Tasmanian Truffle Project No 3 | |
| • Marketing Agreement | MPA and Friend and Burrell Fine Foods |
| • Subcontract Truffière Management Agreement | MPA and Truffles Three Pty Ltd |
| • Amended Subcontract Truffière Management Agreement | MPA and Truffles Three Pty Ltd |
| • Seedling Purchase Agreement | Truffles Australis Pty Ltd and Truffles Three Pty Ltd |

Licence, Product Ruling and Approvals

- Australian Financial Services Licence No. 224805 held by MPA.

Supporting Documents

- Property Report and Valuation - 5171 Bass Highway Deloraine Tasmania - ESK Valuation Group
- Updated Property Report and Valuation - 5171 Bass Highway Deloraine Tasmania - ESK Valuation Group
- Irrigation Water Analysis - Bore and Dam - Serv-Ag Pty Ltd
- Soil Report - Swep Analytical Laboratories Pty Ltd
- MPA - Biographies and qualifications of Directors
- Financial models and schedules of costs for the Tasmanian Truffle Project No 3

No Trufflelots or shares will be issued to an entity that is not a Self Managed Superannuation Fund.

The ATO has not been requested to issue a Product Ruling in respect of this project.

1.2. Approach

Lonsec has rated the Project in accordance with the standard Lonsec rating methodology. Projects are assessed against a scale of 1-100, which is translated into the following descriptive ratings: "Highly Recommended" (85 to 100), "Recommended" (75 to 84), "Investment Grade" (65 to 74), "Not Approved" (less than 65). A Project must rate greater than 65 in each of the six Major Determinants - Industry, Management, Corporate Resources, Product Sales and Marketing, Agronomy and Financial Returns in order to pass as a whole, regardless of the total aggregate rating.

2. SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • MPA has entered into an agreement for a period of 10 years with Bryan Burrell and Simon Friend (trading as Friend and Burrell Fine Food for the marketing and sale of all truffles produced by Tasmanian Truffles Project No 3. MPA has the option to extend this contract for three further periods each of 5 years in duration. MPA will sell all the Truffles produced by the Project to Friend and Burrell who will pay \$1,500/kg for First Grade Truffles and \$1,300/kg for Second Grade Truffles. These prices will escalate in line with CPI, as from the first production year. • Expertise and experience of Tim Terry, who is currently producing black truffles in the Deloraine region (albeit using a combination of hazelnut and oak trees as hosts) from Truffières owned by him. • The risk of insect pests, diseases and contamination is seen to be very low because of Tasmania's relative isolation and strict quarantine laws. • Availability of ample, secure, high quality, low cost water. 	<ul style="list-style-type: none"> • Even though all the necessary work in the Truffière might have been performed perfectly, with the mycorrhization well established and the brûlés evident, there can be no certainty that the fruiting bodies of the underground fungus (the truffles) will be produced in the expected quantities and timeframe, or even produced at all. • The oak tree species chosen for 50% of the host trees <i>Quercus robur</i> (Pedunculate or English Oak) is not a tree that is widely used in France as the deciduous host. <i>Q. pubescens</i> (Pubescent Oak) is much more widely used as the deciduous host. There is a risk that the <i>Q. robur</i> trees may not host the expected quantity of truffles. However, early production results for <i>Q. Robur</i> from Western Australian Truffières are encouraging. • Lack of financial robustness in each of the three management/asset ownership companies. This is somewhat mitigated by the establishment of a Performance Bond. • 'Land ownership', via the mandatory investment in the land owning company, in a project such as this does not add to the Investors' return, but it may relieve some of the financial stress on the management companies. • Lack of a defined exit mechanism from the land owning company at the end of the project term.
Opportunities	Threats
<ul style="list-style-type: none"> • The population of France doubles in June and July each year, at the peak of the Northern hemisphere holiday period. Many of the tourists come to enjoy the cuisine of France but fresh Black Truffles elude them because they are harvested only in the winter months. An export opportunity exists for Southern Hemisphere producers of quality fresh black truffles to fill this unmet demand. The local French truffle producers do not see this as competition, but rather as complementary to their work, as it exposes a greater number of consumers to the pleasures of the French Black Truffle, and may encourage imports of fresh truffles from France, when Australian grown truffles are not in season. 	<ul style="list-style-type: none"> • Invasion by competing fungi (particularly <i>Tuber brumale</i> and <i>T. aestivum</i>) which are capable of displacing the <i>T. melanosporum</i> (the most desirable species, and the most valuable). • Adverse weather conditions, particularly winter frosts during the truffle maturing period. • Strengthening of the AUD exchange rate, with an adverse impact on export returns, if truffles are exported to France or other overseas destinations.

3. Key Drivers of the Project

Lonsec believes that the following key project components will drive the success of the Tasmanian Truffle Project No 3.

3.1. Experience of the Truffière Manager

Tim Terry, a director of Managed Products Australia Ltd, the primary manager and RE of this Project, has had extensive pioneering experience with the cultivation of Black Truffles in Tasmania. A Truffière owned by Terry produced Australia's first Black Truffles in 1999.

3.2. Counter-seasonality

Black Truffles mature in the winter. In the Southern hemisphere this is June, July, August and September. At this time, the Northern hemisphere tourist season is at its peak, but there are no fresh locally grown Black Truffles.

This presents an opportunity to export Australian grown Black Truffles to Europe and North America.

3.3. High value product in short supply

The Black Truffle is one of the most highly priced food items. Restauranters are known to have paid up to \$3,000/kg for Australian grown Black Truffles.

Demand for Black Truffles continues to increase as the supply of natural forest grown Black Truffles from Europe is diminishing.

3.4. Successful inoculation of host trees

A successful inoculation process is vitally important to the success of this project. The mycorrhization is checked by a skilled mycologist to confirm that competing species of truffle have not been introduced during the inoculation process. This step is important in preventing unwanted associations with alternative truffle species.

4. Investment Offer and Structure

4.1. Project Outline

The PDS and Prospectus for the Tasmanian Truffle Project No 3 is dated 4 May 2007.

The offer of investment made for Trufflelots in the Project and for shares in Truffles Three Landco Ltd is limited to entities defined as Self Managed Superannuation Funds.

Key features of the Project

- Investors participate in a 25 year Black Truffle Project located at Deloraine in north-central Tasmania.
- The offer closes on 4 June 2008.
- The minimum investment in the project is one Investor Interest at \$4,400 (including GST), Year 1 Management Fee at \$1,100 (including GST), plus 2,000 shares in Truffles Three Landco Ltd (the land owner) at \$1.00 per share, for a total amount of \$7,500.
- The project requires a minimum of 100 subscribers before it can proceed. This represents a 14% uptake if all of the 100 subscribers take one Investor Interest.
- Investors enter into a Licence Agreement with MPA to gain a licence over a Trufflelot, which has an area of approximately 0.1ha. When established, each Trufflelot will include 40 inoculated oak trees.
- Investors will appoint MPA under a Truffière Management Agreement to establish, manage and harvest the Truffière and market the truffles grown thereon.

- MPA has prepared a Compliance Plan as required by the Corporations Act in order to ensure that the RE manages the Project in accordance with its obligations and responsibilities.

Establishment Fee

- Upon application, Investors must pay an Management Fee of \$4,350 (including GST) plus a Licence Fee of \$50 (including GST), together with the Year 1 Management Fee at \$1,100 (including GST) totalling \$5,500 (including GST) per Trufflelot, this being the initial cost of using and preparing the Trufflelot and the supply and planting of the inoculated oak trees.

Ongoing Management and Licence Fees

- In year 2 Investors must pay a Management Fee of \$1,000.00 (including GST) plus a Licence Fee of \$100.00 (including GST) totalling \$1,100 (including GST) per Trufflelot.
- In years 3 and onwards, the abovementioned total fee of \$1,100 (including GST) per Trufflelot will increase in line with the Consumer Price Index.

Harvest costs

- Harvest costs of maintaining the appropriate number of Truffle dogs will be paid by the Investor as part of their ongoing Management Fees.

Summary Tables of Fees

➤ Investors should refer to the summary tables of fees on page 16 of this report.

Stapled offer

This is a stapled offer, where investors are required to take up at least one Investor Interest in Tasmanian Truffle Project No 3 (\$4,400), Year 1 Management Fee at \$1,100 (including GST) plus 2,000 shares (\$2,000) in Truffles Three Landco Ltd.

The return on the shares is significantly lower than the return from the truffle project, which results in the dilution of the combined return by approximately 1.5 percentage points.

Production sharing

Production from the Truffière is shared between the Investor and the RE as follows:

- Production of up to 60 kg of truffles/ha, 100% to the Investor.
- Production in excess of 60kg of truffles/ha, 50% to the Investor and 50% to the RE.

Lonsec sees production sharing agreements as a good mechanism for strengthening the alignment of interests as between the MIS investor and the Manager.

Reversion of ownership

When the Project ends on 30 June 2032, the established Truffière will be owned by the land owner (Truffles Three Landco Limited).

Participants in the Project, by virtue their being shareholders in the land owning company, will have a continuing interest in the Truffière

At the end of the project term Investors will have the option of selling the land and Truffière or the engagement of a management firm and the continuation of the income yielding investment.

Investor finance

MPA does not offer Investor finance.

4.2. Project agreements

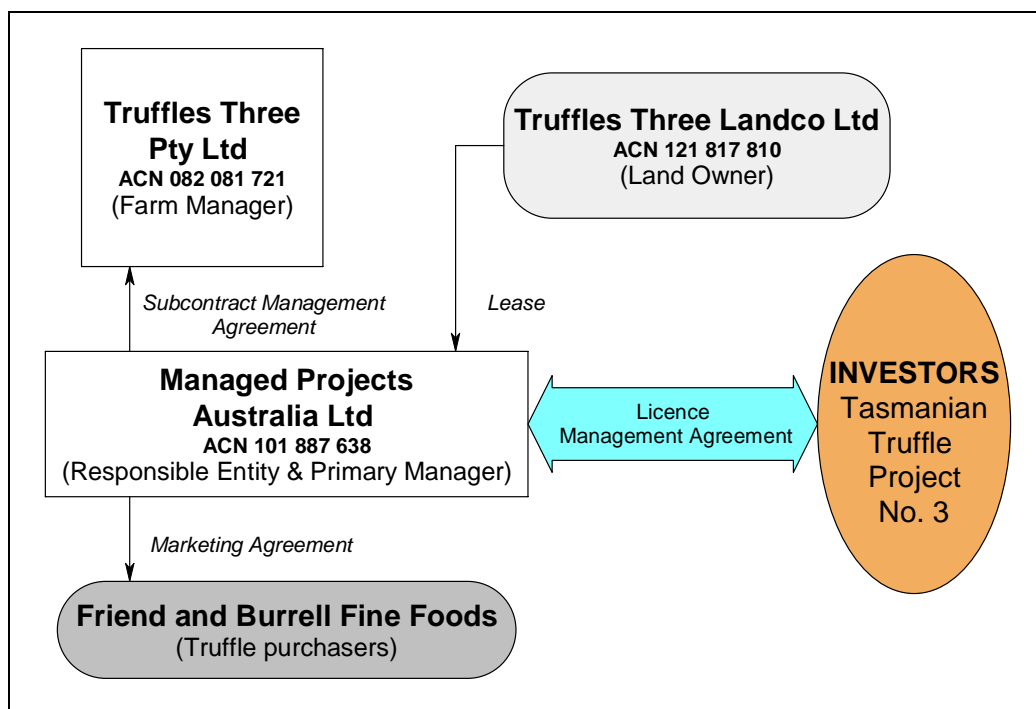
➤ The relevant Agreements relating to the establishment of the Project are the:

1. Constitution;
2. Licence Agreement; and
3. Truffière Management Agreement.

➤ The Constitution for the Project has been lodged with ASIC. The Constitution contains the standard terms and conditions of the Lease and Management Agreements for the Project. Lonsec refers prospective investors to Section 12 of the PDS and Prospectus for additional information in respect of the relevant Project Agreements that must be entered into in order to participate in the Tasmanian Truffle Project No 3. Investors should also seek their own independent professional advice prior to entering into any of the Project Agreements.

4.3. Project Structure

Figure 4.1 - Project Structure, including the external and Project related parties



5. Industry Outlook

5.1. Introduction

A brief background note on the Black Truffle, with some key terms explained

Mycorrhiza refers to an association or symbiosis between plants and fungi that colonize the cortical tissue of roots during periods of active plant growth. The association is characterized by the movement of plant-produced carbon to the fungus and fungal-acquired nutrients to the plant. The term mycorrhiza, which literally means *fungus-root*, was first applied to fungus-tree associations described in 1885 by the German forest pathologist A.B. Frank. Since then it has been learned that the vast majority of land plants form symbiotic associations with fungi: an estimated 95% of all plant species belong to genera that characteristically form mycorrhizae. The mycorrhizal condition is the rule among plants, not the exception.

Seven kinds of mycorrhiza are recognized in the scientific literature. The most common is arbuscular (named for internal structures called arbuscules) or vesicular-arbuscular (arbuscules and another structure called vesicles), abbreviated as AM. This is an endomycorrhiza, which means the fungus enters the cells of the root. AM are found on grasses, most crop plants, many trees, shrubs, flowers, and in fact about 80% or so of the world's plant species. The fungi are nondescript soil fungi that are not evident without a microscope.

The next most common kind is ectomycorrhiza (ECM), which means that the fungus enters the root but not the root cells. The host plants are pines, firs, spruce, oaks, and several other kinds of plants, mostly forest trees. The fungi often form mushrooms or truffles. The mushrooms and truffles are the fruiting bodies of the underground fungi. The mushrooms are visible on the surface but the truffles are underground. When you eat a truffle, you are eating the fruit of a mushroom called *Tuber*. The French black truffle is specifically *Tuber melanosporum*.

When establishing a **Truffière** (a truffle plantation), the roots of the host tree seedlings are **inoculated** to help encourage the mycorrhizal condition. There are various methods, some more successful than others, that are used to inoculate seedlings to try and attach the truffle spores to the seedling's root system. The inoculated seedlings usually remain in the nursery until the mycorrhization is established, and they are then planted in the Truffière when the weather conditions are appropriate. As the tree grows in the Truffière, the mycorrhized zone spreads radially from the trunk and, after a few years if the mycorrhization is working well, a **brûlé** will be observed around the tree. The brûlé (literally 'burnt') is a brown area surrounding the tree where the underground mycorrhizal activity has killed the surface vegetation.

The presence of the brûlé indicates that the conditions are right for the production of the fruiting bodies of the underground fungus (the truffles) but it is not a guarantee that truffles will be produced.

The gestation of the black truffle (in the (Northern Hemisphere) is a tenuous process. From January to the middle of June the **mycelium** (in fungi, the network of filaments ensuring nutrition and colonisation of its surroundings) is in a dormant phase. In mid June, following water and heat, young truffles are produced. They are red and are 1.5 mm in diameter and only 10% of the young truffles will develop and mature during one year.

The small truffles do not grow in the next two months. The storms of August cause hydraulic and heat shocks and from September to the middle of October the small truffles tend to grow quickly. The blackening of the **peridium** (the skin of the truffle) is also observed. The phase of maturation lasts from October to January and February because of the low temperatures. The interior of truffle turns black and the perfume and the flavour develop. The truffle can withstand temperatures as low as minus 10°C in the ground but once the ground freezes for three or more consecutive days, it can lose all of its value.

The Deloraine site has never reported temperatures at this level and therefore the risk of losing truffles due to frozen ground temperatures is seen as remote.

5.2. World Industry Overview

Definitive statistics on the black truffle industry are difficult to find because a significant proportion of the production is sold through the cash economy. Three reputable sources have this to say:

1. The Australian view

The "French Black Truffle" report prepared for the Rural Industries Research & Development Corporation (RIRDC) in June 2001 is the source of the following data:

Towards the end of the last century, France annually produced up to 1,000 tonnes of French black truffle from more than 20 regions in southern France. Since this period output has fallen continuously, with some slight variations, to a level of combined production from France, Spain and Italy of 50 to 80 tonnes annually. The causes of this decline are many, including abandonment of land cultivation, wartime destruction of trees, planned de-forestation and acid rain. In the 25 year period 1975 to 2000, black truffle production in France averaged 28 tonnes pa, whilst Spanish and Italian production combined averaged 42 tonnes pa.

Black truffle production in Europe varies considerably from year to year, being highly dependent on the weather conditions.

The lack of irrigation in France means many growers there are at the mercy of climatic conditions. In the 25 year period 1975 to 2000, annual French production ranged from 10 to 60 tonnes whilst combined production from Spain and Italy ranged from 4 to 100 tonnes.

Provence contributes 75% of total French production and about 80% of total French production now comes from regulated plantations.

Sales of black truffle are 60% fresh and 40% processed. The French themselves consume 40% of total fresh production.

2. The French view

The French, understandingly, are fairly coy when talking about their truffle industry but some useful information has never-the-less been published.

Jean-Marc Olivier, a well respected authority on truffles at the INRA Station de Recherches sur les Champignons in Bordeaux, France has stated:

“Today (1997) 90 tons of different species of truffle are sold or processed in France each year, 20 to 30 tons belonging to the main species *Tuber melanosporum*, picked in France.”

This view is supported by research on European truffle production by species done by Michel Couvoisier and published by the Musee de la Truffe at Sorges en Perigord. The figures represent average production observed at the truffle markets over past years. As most of the truffles produced in Europe are sold for cash through established truffle markets, it is extremely difficult to gauge with any great accuracy the total production of the truffle.

European annual average truffle production - tonnes	France	Italy	Spain	Total
<i>Tuber melanosporum</i> (the Perigord or black truffle)	20	30	25	75
<i>Tuber brumale</i> (the winter truffle)	2	20	5	27
<i>Tuber aestivum</i> (the summer truffle)	30	45	30	105
<i>Tuber uncinatum</i> (the Burgundy truffle)	2	5		7
<i>Tuber mesentericum</i>	1	5		6
<i>Tuber magnatum</i> (the Italian white truffle)		25		25
<i>Tuber borchii</i>		4		4
<i>Tuber macrosporum</i>		2		2
Total	55	136	60	251

The gastronomic classification of the truffle will vary according to personal taste assessment but it is fairly widely acknowledged that the *Tuber melanosporum* (the Perigord or black truffle) is the most desirable truffle in Europe. As can be seen from the table above, it represents only 30% of total European truffle production.

Southern Hemisphere truffle production

The current area planted to truffles in the Southern Hemisphere is estimated as follows:

Country/State	Truffières	Total area hectares	First planted	First produced	Potential production tonnes
Tasmania	30	120	1995	1999	7
WA	5	30	1997	2003	2
NSW & Vic	20	50			1
Australia	55	200			10
New Zealand	100	200	1988	1997	12

Australian Truffle Industry

In Australia there are approximately 200 hectares of established and proposed Truffières, which have the potential to produce 12 tonnes of truffles per annum, or 40% of average annual French production over the past 25 years.

However, Australian truffles will not compete directly with European production of fresh truffles because truffles are only harvested during the Northern hemisphere winter in the months of December to February. The Australian truffles will be produced in the Southern hemisphere winter months of June, July, August and September. These months correspond with the period of peak tourist influx in Europe, when demand for truffles also peaks. This offers the opportunity to export fresh black truffles to Europe at a time when prices could be expected to be high.

In addition to the traditional European markets for the black truffle, there is growing demand in Japan and SE Asia (approximately 10 to 15 tonnes pa), the US (less than 10 tonnes pa) and Australia (less than one tonne pa).

More information on the Industry Outlook for Black Truffles is available on the Lonsec website www.lonsec.com.au.

6. Management

6.1. Summary of Project Entities

Managed Projects Australia Limited (ACN 101 887 638)

Managed Projects Australia Limited (MPA) is the RE and primary manager. MPA holds Australian Financial Services Licence No. 224805.

The Directors of MPA are:

Tim Terry

Terry has an extensive background in agriculture. He is involved in the active agricultural management in Tasmanian Truffle Projects 1 and 2. He also manages 51 ha of privately owned Truffières in Tasmania. A Truffière owned by Terry produced Australia's first black truffles in 1999.

Frank Cassells MBA, BCom, CA

Cassells is the Operations Director of MPA. He is responsible for the development of the structure of Tasmanian Truffle Projects 1, 2 and 3, taxation rulings and ongoing administration and compliance.

Michele Dodd PhD (Int'l Taxation), Dip FP, CFP, JP.

Dodd assists MPA in all areas of law, accounting, taxation, and financial planning.

Tasmanian Truffles Three Pty Limited (ACN 082 081 712)

MPA proposes to delegate farm management responsibilities to Truffles Three Pty Limited (TTPL).

The Directors of TTPL are:

Tim Terry

Frank Cassells

Jack Pearce BSc, Dip Ed, Dip RE, Dip FP

Truffles Three Landco Limited (ACN 121 817 810)

Truffles Three Landco Limited (TTLL) is the land-owning company.

The Directors are the same as the Directors of TTPL.

6.2. Compliance Committee

MPA has prepared a compliance plan as required by the Corporations Act 2001 (Cwlth) to ensure that it meets its obligations as RE and that the rights of the Investors are protected. MPA has also established a Compliance Committee to monitor corporate compliance with the compliance plans. The Compliance Committee is comprised of one internal member and two external members:

Frank Cassells (Chairman)

Chris Germain

Graham McClymont

6.3. Independent Expert

Carolyn Dixon, Field Officer, Edible Fungi Group, New Zealand Institute for Crop & Food Research Limited, is the Independent Expert for the Project.

Dixon is a specialist in plant propagation, tree growth and health, Truffière management and field botany, and has over 18 years of experience in technical research with the New Zealand Forest Research Institute prior to joining Crop & Food Research. Dixon has considerable experience and knowledge of the New Zealand truffle industry and works closely with the rest of the Edible Fungi Group, supported by research leader Dr Alexis Guerin and Professor Wang Yun.

Dixon's professional expertise covers parts of the commercial production of mycorrhized seedlings such as clonal propagation of hazel, establishing field trials of Tuber species and other ectomycorrhizal mushrooms, and undertaking site assessments and consultancy work to establish truffle plantations. Dixon has frequently inspected areas to be planted with hazel and oaks for truffle production and has helped assess established truffle orchards throughout New Zealand. She provides a technical support role to TRINZ (Truffle Investments New Zealand Limited) to implement expansion of the industry within New Zealand.

Dixon is not a formally trained mycologist, but she has extensive experience in this area. Since 1989 she has been the assistant to Dr Ian Hall, the founder of the truffle industry in New Zealand and a very well regarded mycologist, now retired.

6.4. ASIC Database Search

As a matter of process, Lonsec conducts an ASIC database search across the key management and operations staff. Lonsec has found no outstanding records on the existing Board of Directors, Senior Managers and Operational Managers of MPA and TTPL in relation to Disqualified Persons, Banned Securities Representatives, Banned Futures Representatives and AFS Banned/Disqualified Persons.

6.5. Past Performance of Agribusiness MIS Projects

Tasmanian Truffle Enterprises Pty Ltd, a company associated with Tim Terry, Frank Cassells and Michele Dodd is the operations manager of the Truffières in two MIS projects, the Tasmanian Truffle Project No.1 (2001) and Tasmanian Truffle Project No.2 (2003). The total planted area for these two projects is 50 ha.

Tasmanian Truffle Enterprises Pty Ltd is not associated with Tasmanian Truffle Project No 3.

However, MPA is the RE for Tasmanian Truffle Project No.1 (2001) and Tasmanian Truffle Project No.2 (2003) and the past performance of Tasmanian Truffle Project No.1 can provide some useful guidance, in that truffles were first produced in year 4, two years earlier than expected, with 0.208kg/ha in 2005 and 1.0kg/ha in 2006.

6.6. Custodial Arrangement

In its role as Custodian for the project, MPA will maintain separate books of account for these purposes. All monies for subscriptions will be held in a solicitor's trust account while proceeds of the sale of Truffles will be held in a separately held trust account to ensure segregation and safekeeping of the monetary assets until they are paid to the rightful recipients.

7. Business Strategy and Corporate Resources

7.1. MPA's Strategic Objectives

MPA will draw heavily on the extensive experience of Tim Terry, a director of MPA Ltd, the primary manager and RE of this Project. A Truffière owned by Terry produced Australia's first black truffles in 1999.

MPA will employ the latest in technology and the best available personnel to maximise truffle production from this Project.

The long delay (at least six years) until the first Truffle harvest will be a significant barrier to entry for many potential Truffle Investors. This will tend to limit overall production and maintain pressure on supply, thereby keeping prices high.

Accreditation

The Truffles Australis Pty Ltd nursery (owned by Tim Terry, and the supplier of inoculated oak trees to the Project) is a member of The Nursery Industry Accreditation Scheme,

7.2. Financial Resources

Balance Sheet Summary

MPA is a small company with NTA of \$308,000 as at 30/6/2006. A summary Balance Sheet is shown below in Table 7.1.

TTPL is a small company with NTA of \$90,000 as at 31/10/2006.

TTLL is a special purpose entity (specifically to own the land), with NTA of \$260,500 as at 31 May 2007.

The stapled nature of this offer, whereby each Investor must take up 2,000 shares in Truffles Three Landco Ltd (TTLL, the land owner) at \$1.00 per share, will raise a maximum of \$1,460,000, which will significantly strengthen the TTLL balance sheet.

Performance Bond

By way of the Supplementary PDS (SPDS2) and Second Supplementary Prospectus dated 10 July 2007 the following changes have been made to the Trufferie Management Subcontract between MPA and TTPL.

In addition to the cost of providing all services as Responsible Entity, MPA will retain funds on the following basis:

1. The sum of \$1,000 will be retained from the monies payable on application for each Trufflelot and will be placed on trust and interest bearing deposit in a solicitors trust account.
2. 17% of these funds, plus applicable interest will be released to TTPL (or nominee) at the end of each of the next subsequent 5 years, with the balance payable at the end of the sixth year. For applications made on or before 30 June 2008, the following funds will be payable pursuant to this arrangement:
 - 30 June 2008: Retention of \$1,000 (not including GST) per Trufflelot
 - 30 June 2009 through to 30 June 2013: Release of \$170 per annum per Trufflelot, plus interest.
 - 30 June 2014: Release of balance of funds, including interest.
3. Prior to the release of funds to TTPL each year, the Responsible Entity must satisfy itself that all services to be provided pursuant to the subcontract agreement to that date have been duly provided to Trufflelot owners in the project.

The Performance Bond provides funding, on a year by year basis, to ensure that TTPL has the financial capacity perform the agreed services on the Trufflelots in the period prior to the commencement of truffle production.

Table 7.1 - Balance Sheet Summary - Managed Projects Australia Limited

Financial Period Ended	30-Jun 2005 (\$m)	30-Jun 2006 (\$m)
Assets		
Cash	0.206	0.186
Receivables	1.617	1.006
Other Current Assets	0.926	0.884
Non-current Assets	0.009	0.013
Total Assets	2.758	2.089
Current Liabilities	2.456	1.780
Non- Current Liabilities	0.000	0.000
Total Liabilities	2.456	1.780
Net Assets	0.302	0.308
Equity		
Issued capital	0.000	0.000
Retained earnings	0.302	0.308
Total Equity	0.302	0.308
Current Ratio (current assets/current liabilities)	0.46	0.60
Long term debt	0.000	0.000
Short term debt	0.000	0.000
less Cash at bank	0.206	0.186
Net Debt	(0.206)	(0.186)
Net Debt/Equity	n/a	n/a

8. Product Sales and Marketing

8.1. Marketing

MPA has entered into a 10 year agreement with Friend and Burrell Fine Foods to sell all of the Black Truffles produced by this Project. Truffle prices are indexed to CPI, as from the first production year. The agreement can be extended by up to 3 terms of 5 years each, thus covering the full 25 year life of the project.

8.2. Pooling

Investors' Truffles will generally be pooled. If an Investor's oak trees and/or Truffles are damaged or destroyed, then the Manager has the discretion to reduce that Investor's share of the pooled sale proceeds.

9. Trufficulture

9.1. Lonsec assessment of the Trufficultural aspects of the Project

Site location

5271 Bass Highway, Deloraine, Tasmania

Size of property

90 ha on 3 Titles.

Of this, a maximum of 73 ha will be developed as a Truffière.

Topography

There are primarily gently undulating to rolling north-facing slopes. There are some moderately steep slopes, also north-facing.

Climate

The annual rainfall for the area is approximately 1,000mm, with rainfall being winter dominant.

The Deloraine temperatures are typical of a temperate climate region with mild to warm summers and cool to cold winters.

Further details on rainfall and temperature are shown on the pages that follow.

Previous use

Previous land use included the growing of opium poppies, vegetables and the agistment of horses. This latter use is believed by some French truffle experts to be very beneficial for truffle growing.

Planning approval

Planning approval is not required. The previous use was Agricultural, as will be the new use.

Soil

The soils on the property are classified under the Australian Soil Classification System as a ferrosol (also known as Krasnozem under earlier soil classification systems) formed on Basalt.

Ferrosols are a gradational soil and have deep, freely drained, friable clay. Ferrosols have a characteristic red colour because they contain 5-20% iron oxides. The iron oxides, together with smaller amounts of free aluminium oxides and relatively high organic matter contents, give Ferrosols their strongly developed structure.

Lime was applied in the autumn of February 2007 to achieve an optimum pH of 7.5 to 8.0, with subsequent applications in the second and third year after planting as is necessary to maintain optimal soil conditions for the Black Truffle.

Soil tests to ensure that the pH is he maintained between 7.5 and 7.9 will be carried out on an annual basis to monitor soil pH and other nutrients essential for healthy tree growth, thus increasing the chances of successful truffle production and reducing the risk of invasion by competitive ectomycorrhizal fungi.

The initial application of 50 tonnes per ha of very finely crushed lime, will be augmented with ongoing top-up applications of 10 tonnes per ha annually.

These soils are naturally free draining and therefore drainage in general will not be a problem across the property. There is one small (<0.5ha) area in a depression that does lie wet where the Manager has carried out subsoil drainage work to alleviate any problem.

Soil depth is 60cm in the gullies and 30cm on the rises.

The Tasmanian Land Capability Survey, which assesses the capability of land for long term sustainable agricultural production by the DPIW (Tasmanian Department of Primary Industry and Water), has categorised the land on this property as primarily class 3 with a small area of class 4 running across the top of one hill due to stoniness. Classes 1 to 4 are classified as good agricultural land.

Water availability and irrigation

Water for irrigation is supplied from an on-farm dam with the holding capacity of approximately 40 ML and a bore with the pumping capacity of 2 ML day. The bore water is very cold. It will be run into the main dam before it is used.

Irrigation mains already exist on the property. A micro sprinkler irrigation system will be installed across the Truffière.

The house block on the other side of the road has a 6 to 7 ML dam. There is potential for other dams on the project site.

The water usage rate is expected to be 1 ML per hectare. This will be well covered by the available water.

Water quality

The existing dam on the property catches only runoff from the property with no external water entering it, which minimises any contamination possibilities.

The bore has been in place for many years irrigating numerous vegetable crops and has also been sold to adjoining properties. History shows it to be a good clean source of water. A water test done by Peractor on the bore water shows it to be of high quality

Host trees

Lonsec has been advised that the host trees will be as follows:

Quercus ilex, (Evergreen, Holly or Holm Oak) - 50% of host trees

Quercus robur (Pedunculate or English Oak) - 50% of host trees

Q. ilex (evergreen) and *Q. robur* (deciduous) are widely used as host trees for the Black Truffle. Some French truffle experts are of the view that a 50/50 mix of evergreen/deciduous trees is beneficial in that more sunlight can penetrate the tree canopies and reach the so-called "brûlés".

Many of the early French Truffières were planted to the *Corylus avellana* (noisetier or hazelnut) but there has subsequently been a movement away from the use of this tree, for the following reasons:

- The tree develops as a dense thicket of stems, up to 6m high and 6m wide.
- The vigorous suckers sent up from the base of the trunk must be removed regularly to facilitate access and reduce shading on the brûlé. This is a time-consuming and costly operation.
- The tree has the propensity to act as a host for *T. brumale* and *T. aestivum*, both of which can compete with *T. melanosporum*.

The host trees will be grown at the Truffles Australis Pty Ltd nursery (owned by Tim Terry, a Director of MPA). The nursery is located at on Terry's Needlesdale property (near Deloraine) and is a member of The Nursery Industry Accreditation Scheme.

Innocation of host trees

A successful inoculation process is vitally important to the success of this project. The mycorrhization has been checked by a skilled mycologist to confirm that competing species of truffle have not been introduced during the inoculation process.

The inoculation process used in this project is described only in very general terms, as much of the information regarding particular details is very closely held.

In broad terms, the acorn is germinated in a sterile environment and the appropriate inoculum is introduced at the earliest opportunity to ensure appropriate symbiotic association with *T. melanosporum*. Techniques vary but typically include immersion in an inoculating slurry. There may be other components in the slurry, for example sterilizing or fertilizing agents.

The precise components and their proportions is information that is very closely held by the party carrying out the inoculation.

The rootball is replaced in the container and the tree remains in the nursery for 6 months or more, after which time the root ball will be examined microscopically by an independent expert to check that a satisfactory level of the correct mycorrhization has been established.

The tree will then be grown-on and hardened-off in the nursery before being planted in the Truffière in the spring.

As the host tree grows in the Truffière, the mycorrhized zone spreads radially from the trunk as the root network expands and, after a few years if the mycorrhization is working well, a brûlé will be observed around the tree. The brûlé (literally 'burnt') is a brown area surrounding the tree where the underground mycorrhizal activity has killed the surface vegetation. Sunlight (and warmth) on the brûlé is considered to be beneficial to the development of the sub-surface mycorrhization.

Row width will be 8 m and the trees will be spaced at 3 m apart along the rows, giving a stocking rate of 415 trees per hectare.

Truffière management

Initially the truffière will require several applications of appropriate herbicide per season to control vegetation along the tree rows, plus rotary mowing between the rows and baling to remove organic matter. As the Truffière matures the oak trees will shade out some weed growth and the brûlé will assist in keeping the substrate clear. Pruning will be carried out from an early age to develop sturdy trees of good form and to minimise lateral branching, limbing up to 1.5 m by year 5. Cultivation will be undertaken if required.

Fertiliser requirements are known for oak species and an adequate fertiliser regime has been developed. Fertiliser will be applied in a broadcast dressing around the tree and through the irrigation system if results from annual foliage sampling in late summer suggest that trees are nutrient deficient.

Pests

Browsing pests are not expected to be a problem, because the surrounding land is cleared and is used for mixed farming.

The main browsing pest on other truffle plantations in the area is the potoroo, which is similar in appearance to a small wallaby.

On other truffle properties these pests are controlled by three low electric fencing wires on the outside of the main fence.

Tree disease

Mildew is a very common fungal disease on crops and tree seedlings in the Northern Hemisphere. Powdery mildew on oak, or oak mildew (French: oidium) is caused by the fungus *Microsphaera alphitoides*. The pathogen may retard the growth of young plants and may kill tree seedlings. Recurring attacks of *M. alphitoides* in combination with other pathogens or herbivory by mammals and insects may even cause older oaks to die.

In Northern Europe, oak mildew is a severe disease on young oak seedlings. The major factors that are believed to influence the spreading of the disease are host factors, humidity and temperature, and cultural practices. The disease is present everywhere in Europe wherever oaks are growing.

Young, soft leaves are more susceptible to infection than mature leaves, and young individuals are more vulnerable than older, since they have a high proportion of new shoots

In French truffle plantations, either sulphur or systemic products based on triadimefon or triforine are being used against oak mildew. These treatments do not appear to affect the truffle mycorrhiza noticeably. Sulphur, being a non-systemic product, and triadimefon and triforine, both being systemic products (although they may be less systemic than earlier believed), are considered to be rather harmless to mycorrhiza, if used properly.

However, oak mildew is seen to be a very low risk at Deloraine because of Tasmania's isolation and strict quarantine laws.

Climatic risk

Like all agricultural projects there is the risk of climatic impact to the Truffière from events such as high winds, storms, rainfall and frost.

Climate

The property is situated at around 42 degrees south latitude that corresponds to the warmer truffle growing regions within the Northern Hemisphere. The climate is best described as cool temperate. The temperature range is cool and variable enough in winter to be generally favourable for the development of truffles, yet not prone to excessive frost. In summer, temperatures are lower than the 40+ °C recorded in the French truffle growing areas. The highest maximum temperature recorded at Deloraine East is 33.8 °C.

Wind

Wind direction is generally from the North West. Wind conditions are generally favourable for Truffière development. However, a wind guard will be placed around each tree.

Experimental work done by Dr Daryl Brown in Tasmania has shown that the use of wind breaks can be beneficial to host tree health and vigour.

Rainfall

The rainfall statistics in the table below have been transposed so that the Northern Hemisphere figures can be directly compared with the Southern Hemisphere figures.

Monthly average rainfall – mm

Northern Hemisphere	Winter			Spring			Summer			Autumn			Year
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
Limoge, France, 45.9° N, altitude 396m	96	87	81	83	76	92	68	58	74	78	78	89	960
Southern Hemisphere	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Year
Deloraine East, Australia 41.3° S, altitude 240m	101	126	138	102	92	76	87	66	45	73	83	98	1,086
Deloraine East rainfall in excess of Limoge by:	5	39	57	19	16	-16	19	8	-29	-5	5	9	126

Limoge - 1,368 records. Deloraine East - 132 records

The Limoge weather station is located approximately 100km north of Perigeux, the centre of truffle growing in southwest France.

Temperature

The temperature statistics in the tables below have been transposed so that the Northern Hemisphere figures can be directly compared with the Southern Hemisphere figures.

Average daily temperature - °C

Northern Hemisphere	Winter			Spring			Summer			Autumn			Year
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
Limoge, France, 45.9° N, altitude 396m	3.2	4.2	6.6	9.1	12.7	15.7	18.3	17.6	15.4	11.3	6.7	4.3	10.4
Southern Hemisphere	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Year
Deloraine East, Australia 41.3° S, altitude 240m	5.9	6.9	8.6	10.7	12.7	14.6	16.2	16.8	14.6	11.7	9.0	6.4	11.2

Limoge - 477 records. Deloraine East - 132 records

Minimum daily temperature - °C

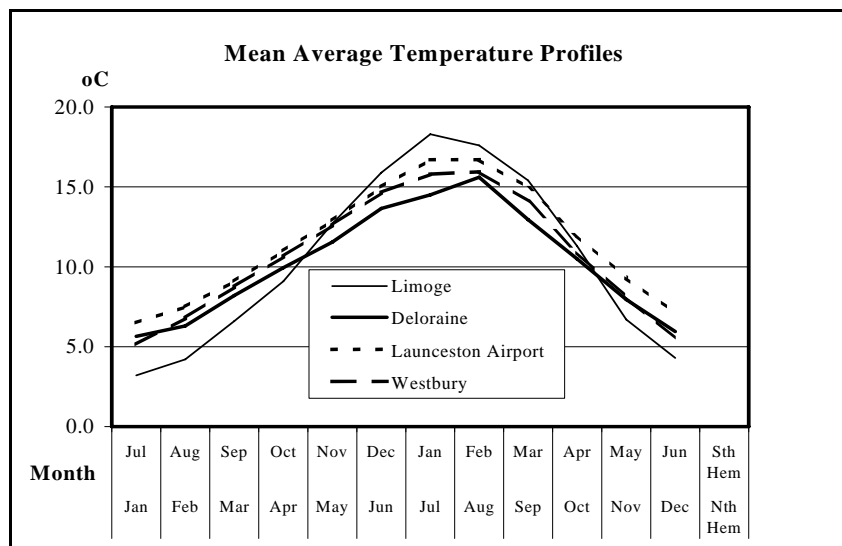
Northern Hemisphere	Winter			Spring			Summer			Autumn			Year
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
Limoge, France, 45.9° N, altitude 396m	0.8	2.0	3.3	5.5	8.3	10.8	12.5	12.5	11.0	9.3	5.3	2.0	6.9
Southern Hemisphere	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Year
Deloraine East, Australia 41.3° S, altitude 240m	0.7	1.9	3.3	4.7	7.0	8.5	9.6	10.2	8.3	5.5	3.5	1.0	5.3

Maximum daily temperature - °C

Northern Hemisphere	Winter			Spring			Summer			Autumn			Year
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
Limoge, France, 45.9° N, altitude 396m	9.0	6.5	8.5	11.3	14.3	17.5	20.5	22.8	23.0	21.3	18.0	13.0	15.5
Southern Hemisphere	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Year
Deloraine East, Australia 41.3° S, altitude 240m	11.0	11.9	13.9	16.6	18.3	20.7	22.7	23.4	20.9	17.8	14.5	11.7	17.0

The graph which follows shows the Mean Average Temperature Profiles for Limoge and three weather stations in the vicinity of the Project site. It will be seen that the three Tasmanian sites have more moderate temperature profiles than Limoge, in that they do not experience the same extremes of temperature as those recorded at Limoge.

This may or may not be a good thing. The Black Truffle has been called “the daughter of change” because it has been firmly established that it responds positively to high and low temperatures and also to wet and dry conditions at certain specific points in its life cycle.



Three particular features of the Deloraine site which differ significantly from those typically exhibited at truffle growing sites in the Perigord may put truffle production at risk:

1. Annual average rainfall at the Deloraine East weather station is 1,086 mm pa, compared with 960 mm pa as measured at the Limoge weather station in France. The 126 mm (13%) higher rainfall at Deloraine East is not a particular concern, but the fact that most of the increase (101 mm pa) occurs in winter when the truffle is maturing may impact unfavourably on truffle production. However given the deep Krasnozem soils which are friable and well draining this is unlikely to be an issue.
2. The pH of the soil at the Deloraine site will be raised to the desired level by the addition of finely crushed limestone, whereas the pH of the French truffle producing sites is typically naturally high (and has been that way for a considerable time) because of the calcareous nature of the soils. There, the limestone is present in the soil in large

pieces (as large as 100 cm³) from which the calcium carbonate is slowly leached into the soil. In addition, the relatively large surface areas presenting a high concentration of calcium carbonate to surrounding soil components may play an important part in the very complex mycorrhizal reactions that take place in the soil. The manager will follow an ongoing regime of lime application to ensure that pH is well managed.

3. Surface compaction can tend to inhibit the mycorrhizal reactions in the soil, which need ample air and water from the surface. The Krasnozem soil at Deloraine is deep, friable and well-drained. Compaction will be controlled by the establishment of suitable surface plantings (typically low growing grasses, such as fescues) and the minimisation of vehicular traffic, especially when the soil is very moist. Furthermore the site preparation has involved cultivation down to around 170mm. This provides a well worked and open soil to a depth that exceeds that of the normal truffle growth zone.

Lonsec conclusion

Lonsec is of the view that the critical trufficultural issues that that will drive the success of this Project have been identified and that the proposals as to the establishment and the on-going management of the Project are appropriate.

The Project draws heavily on the knowledge, experience and assets of Tim Terry. The success of this Project is contingent upon Terry's continued involvement in the Project.

Terry is currently aged 50. He will be aged 75 by the time that this 25 year project terminates.

The RE holds, and has agreed that it will continue to hold, keyman insurance on Tim Terry to the value of \$600,000 for Death Cover, \$300,000 for Trauma Cover (heart, cancer, stroke, major illness) and \$300,000 for Total and Permanent Disability.

10. Application of Funds and Ongoing Costs

10.1. Investors' establishment and ongoing fees

Details of grower fees are provided in the PDS and Prospectus and in Section 4 in this report.

Investors are liable to pay Management Fees and Licence Fees on annual basis.

10.2. Manager Revenues, Costs and Profit

Lonsec has reviewed the cashflow model provided by the RE and has extracted the following revenue and cost information. The costs stated are the cumulative total costs for the life of the Project and include the effect of inflation.

Table 10.1 - Investor/Shareholder payments - Tasmanian Truffle Project No 3

Investor payments (excluding GST) \$ per hectare	First 3 years	% of total	Total	% of total
Shares in Truffles Three Landco Ltd	20,000	22.2	20,000	3.8
Initial Management Fee	39,545	43.8	39,545	7.4
Annual Management Fees	27,500	30.5	303,173	56.9
Annual Licence Fees	3,205	3.6	30,772	5.8
Truffle production bonus to Manager	-	-	138,888	26.1
Total	\$90,250	100.0	\$532,378	100.0

Table 10.2 - Manager costs - Tasmanian Truffle Project No 3

Manager costs (excluding GST) \$ per hectare	First 3 years	% of total	Total	% of total
Land	9,589	10.6	9,589	1.8
Stamp duty, surveying, site preparation	1,095	1.2	1,095	0.2
Irrigation	5,753	6.4	5,753	1.1
Land Preparation	1,952	2.2	1,952	0.4
Trees and Planting	10,959	12.1	10,959	2.1
Farm Management	24,212	26.8	291,123	54.7
Total Operational Expenditure	53,562	59.3	320,472	60.2
Off-farm Management	3,619	4.0	24,956	4.7
Project marketing	1,027	1.1	1,027	0.2
Commissions - Investors & Shareholders	5,800	6.4	5,800	1.1
Tax payable by Manager	7,873	8.7	54,037	10.2
Manager profit (after tax)	18,370	20.4	126,086	23.7
Total	\$90,250	100.0	\$532,378	100.0

As shown in Table 10.2 above, MPA has budgeted for an after tax profit margin of 23.7% on the total funds paid by the Investors, comprising annual fees plus the truffle production bonus. However, investors must be aware that these returns are calculated on an accounting basis, which does not take account of the time value of money and so cannot be directly compared with the forecast after tax Combined IRR of 19.8%.

Ideally, the Investor IRR would be compared with the Manager IRR, but it is not always possible to calculate the IRR of a given cashflow, as the ability to make the calculation depends on the specific timing of the cash inflows and the cash outflows. The Manager cashflow as assessed by Lonsec falls into this category.

However, another method of comparison is available, wherein the net present values (NPV) of the Investor and the Manager cashflows, discounted at a common rate, can be compared in magnitude.

Lonsec has performed such a calculation, in this instance discounting both the Investor and Manager cashflows at the Investor IRR. The result will always be a zero NPV for the Investor (the IRR of a cashflow is, by definition, the discount rate that returns a zero NPV) which can be compared with the NPV of the Manager cashflow.

The NPV (19.8%) of the Manager’s after-tax cashflow is \$21,100 per hectare. The NPV (19.8%) of the Combined after-tax cashflow is zero. This analysis would tend to indicate that returns from the project may be skewed toward the Manager.

In very broad terms, it can be argued that the Manager probably faces a higher overall level of risk than the Investor and should therefore receive a greater share of the returns. The difficulty comes, however, in determining whether the apportionment of the returns as between the two parties is appropriate and equitable. On this matter, Investors will need to make their own assessment, having regard to their particular circumstances.

11. Product Disclosure Statement Assumptions

11.1. Financial Model and Directors’ Assumptions

The Responsible Entity has sought opinions on key project assumptions from experienced industry consultants in their fields of expertise, including truffle yields, future truffle prices, and future costs.

Lonsec’s assessment of key project assumptions is based on in-house knowledge of the global truffle industry, the PDS and Prospectus Independent Expert Report and benchmarking to verifiable industry benchmarks and historical results.

Lonsec has stated a reasonable range for each key assumption, and notes that the likelihood of any long term assumption (greater than two years) being achieved varies inversely with the time period projected.

Investors should be aware that unforeseen circumstances could impact on the stated assumptions in the PDS and Prospectus. It is important to recognise that long range returns will be based on economic, physical, and environmental inputs that are impossible to predict with accuracy.

11.2. Truffle yield

The unit of investment is one Investor Interest with an area of approximately 0.1ha. It is expected that each Investor Interest will produce on average 7kg of truffles pa when the project reaches maturity. This is equivalent to a yield of 70kg per hectare.

Truffle yields	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12+
Yield - kg/ha	3	10	25	40	60	60	70
% mature yield	4	14	36	57	86	86	100

11.3. Truffle prices

MPA has entered into a Marketing Agreement for a period of 10 years with Bryan Burrell and Simon Friend (trading as Friend and Burrell Fine Foods) for the marketing and sale of all truffles produced by Tasmanian Truffles Project No. 3. MPA has the option to extend this contract for three further periods each of 5 years. MPA will sell all the Truffles produced by the Project to Friend and Burrell, who will pay the following prices for the Truffles to MPA, within 14 days of the end of the week in which delivery of the Truffles to the Marketer was made by MPA:

- \$1,500 per kg for First Grade Truffles
- \$1,300 per kg for Second Grade Truffles.

Generally, Truffles will be graded as being First Grade Truffles or Second Grade Truffles based on the following:

- First Grade Truffles – weight in excess of 20 grams, possess a good aroma and have little or no damage.
- Second Grade Truffles – weigh less than 20 grams, or in excess of 20 grams but possess a poor shape, poor aroma, have had rot removed or are damaged.

The prices paid for Black Truffles vary widely, depending on quality, quantity, source of production, and the relative position of the buyer in the producer/wholesaler/retailer chain.

The Sainte Alvere Truffle Market is one of the dominant truffle markets in France. During the truffle season prices are available online. This market sells graded truffles by species, priced by the kilogramme, rather than the bags or baskets of ungraded mixed species that are often sold at other truffle markets.

Sainte Alvere Truffle Market Market prices - 2006 season Truffe Noire (Tuber Melanosporum)		
Prices as at	Start of season	Christmas Eve
Average for Category 1 & Category 2	\$1,270/kg	\$1,590/kg

The Sainte-Alvere Truffle Market prices are quoted in Euros, which have been converted to AUD at an exchange rate of 0.63.

SA Pebeyre, based in Cahors (France), is a leading supplier of truffles and truffle products to the retail market. This company sells graded truffles by species, priced by the 100 grammes.

SA Pebeyre Retail prices - 2006 season Truffe Noire (Tuber Melanosporum)	
Category 1 (entire truffles)	\$2,680/kg
Category 2 (truffle pieces)	\$2,345/kg

The SA Pebeyre prices are quoted in Euros, which have been converted to AUD at an exchange rate of 0.63.

The current prices being paid for Australian and New Zealand produced truffles (up to \$3,000/kg) need to be discounted because of the novelty and scarcity factors.

An average net selling price of \$1,450 per kilogram (2007 money) has been assumed in Lonsec financial forecasts. This is an average price based on 75% production of First Grade truffles (\$1,500/kg) and 25% production of Second Grade truffles (\$1,300/kg). The 75%/25% production quality mix is consistent with that which is currently being purchased by the major truffle processors in France.

European production is from a mix of irrigated and non - irrigated Truffières. It has been clearly established that irrigated Truffières produce higher quality truffles.

The truffle prices assumed in this Project are reasonable when compared with the prices discussed above. However, investors must be aware that additional supply from the Southern hemisphere truffle producers could depress the price.

Whilst the Northern and Southern harvests are at different times of the year and will not compete directly, the overall supply has the potential to increase by 50% over the next 20 years. This could diminish the scarcity and exclusivity factors that help support the Black Truffle price.

11.4. Price inflation

The Marketing Agreement with Bryan Burrell and Simon Friend provides for the truffle prices to be adjusted annually in line with the Consumer Price Index.

11.5. Costs

Detailed costs are tabulated in Section 10 Application of Funds and Ongoing Costs.

11.6. Cost inflation

There is no specific assumption as to cost inflation in the PDS and Prospectus. Lonsec has the view that it is appropriate to assume a long term Australian inflation rate (CPI) of 2.5%. This view is based on a RBA survey of market economists for the year to December 2008.

11.7. Exchange rates

Under the Marketing Agreement with Bryan Burrell and Simon Friend, the truffles are priced in AUD.

However, if truffles are exported to France (where prices are quoted in Euros) or other overseas destinations (where prices are likely to be quoted in USD) a strengthening of the AUD would have an adverse impact on export returns.

Project investors may therefore be exposed to AUD: Euro or AUD:USD exchange rate risks.

11.8. Summary of Assumptions

Table 11.1 - Summary of Key Assumptions

Assumption	Lonsec low case	Lonsec mid case	Lonsec high case	Source of estimates (Directors and/or Lonsec)
Yield - kg/ha	35kg	70kg	80kg	Directors/Lonsec
Truffle production (First grade)	50%	75%	80%	Directors/Lonsec
Truffle production (Second grade)	50%	25%	20%	Directors/Lonsec
Truffle price (First grade)	\$1,300/kg	\$1,500/kg	\$2,000/kg	Directors/Lonsec
Truffle price (Second grade)	\$1,000/kg	\$1,300/kg	\$1,500/kg	Directors/Lonsec
Cost inflation - %pa	3.0%	2.5%	2.0%	Lonsec
Price inflation - %pa	0.0%	2.5%	2.5%	Lonsec

12. Risks and Risk Management

12.1. Lonsec Risk Assessment

Investors need to be aware that an investment in this project entails risks inherent to all long term commercial agribusiness projects, risks particular to Truffières, financial risks and other risks.

The PDS and Prospectus outlines in Section 6.0 a range of risks specific to the Project and TTPL’s management procedures in dealing with these risks. Investors should read and understand these issues before investing in this Project.

The Lonsec analysis of risks aims to assess the degree of Project risks within five categories from Low to Extreme.

The formulation of the overall risk category is a combination of analysis including:

- Lonsec Determinant Ratings Analysis - incorporating qualitative and quantitative assessment criteria.
 - Risk Profile Table - includes an assessment of the likelihood, consequence, and management of risks.
 - PDS and Prospectus Expert Reports – a review of the information provided by project management.
- Lonsec has rated the Tasmanian Truffle Project No 3 in a “Moderate to High” risk category.



12.2. Principal Trufficultural Risks

- Slow or inadequate development of the mycorized zone around the host trees.
- Quality of the Truffles may be lower than expected.
- Invasion of the Truffière by undesirable species.

12.3. Other Risks

Changes in the law

Investors should be aware that the success of the Project and the returns achieved by Investors may be affected by changes in the taxation, regulatory, or legal environment, including changes in legislation and the imposition of new levies, imposts or other taxes.

Project agreements

Anything that affects MPA’s ability to meet its obligations under the Constitution of the Project, the Truffière Management Agreement, and the Licence Agreement constitutes a risk to Investors.

Loss of key staff members

Trufficulture in Australia is still in an early stage of development and the number of skilled technicians is limited. Loss of key Project staff with the necessary trufficultural skills could adversely the performance of the Project.

Tree mortality

Some tree mortality after planting can occur in the first growing season. MPA will monitor any mortality in the first growing season and will infill lost trees with seedlings.

Public liability insurance

The Manager will arrange annual public liability insurance to a limit of \$5 million at no charge to the Investors. Tree and crop insurance will be an option for Investors. Where possible MPA will arrange insurance and make access to that insurance available to Investors at the cost of the Investor.

12.4. Risk Profile Table

Table 12.1 - Lonsec Risk Profile Table which is constructed according to the AS/NZS 4360:1999 standards.

Tasmanian Truffle Project No 3		Lonsec's AS/NZS Based Risk Assessment			
Description of Risk	Possible Outcome	Likelihood Rating	Consequence Rating	Proportion of risk expected to be managed	Net Level of Risk
		Rare Unlikely Moderate Likely Almost certain	Insignificant Minor Moderate Major Catastrophic	Zero Low Moderate Major High	5 = Low 10 = Moderate 15 = High 20 = Severe 25 = Extreme
Trufficulture Risks					
Slow or inadequate development of the mycorized zone around the host trees	Black truffle production delayed or diminished, revenue reduced	Moderate	Major	Low	13.0
Quality of the Black Truffles is lower than expected	Revenue reduced	Moderate	Major	Low	10.1
Invasion of the truffiere by undesirable species	Black Truffle yield reduced	Moderate	Major	Low	8.1
Black Truffles destroyed or damaged by browsing animal pests	Black Truffle yield reduced	Unlikely	Major	Moderate	5.6
Theft of Black Truffles	Revenue reduced	Unlikely	Major	Major	2.5
Management Risks					
Loss of key staff with the necessary trufficultural skills	Skills, experience and local knowledge lost, quality of product may be compromised	Moderate	Major	Moderate	7.0
Insolvency or default of Operational Manager	Replacement Manager may not have required capability. Access to infrastructure may be impaired	Moderate	Major	Low	7.2
Failure of Responsible Entity or withdrawal of Licence	RE can be replaced, possible delay in bringing in new Investors	Unlikely	Major	Moderate	5.0
Marketing Risks					
Market demand lower than expected, competition from Black Truffle substitutes, changes in consumer tastes	Volume of Black Truffles sold reduced, price possibly weakened, revenue reduced	Moderate	Major	Moderate	6.0
Black Truffle prices lower than expected	Revenue reduced	Moderate	Major	Major	3.4
Failure to establish relationships with significant Black Truffle buyers	Revenue reduced	Unlikely	Major	Major	1.0
Other Project Risks					
Changes in substance or interpretation of applicable laws relating to Income Tax, GST, environmental matters	Adverse financial impact on Investors	Unlikely	Moderate	Zero	6.0
Supporting infrastructure	Loss of facilities to harvest and transport the Black Truffle	Unlikely	Major	Moderate	5.0
Fluctuations in exchange rates	Black Truffle price expressed in A\$ could decrease	Moderate	Minor	Major	2.2

The tabulation shown above is based on Standards Australia Risk Management Standard AS/NZS 4360:1999

The five risks with highest net level of risk facing the project have been assessed as follows:

1. Slow or inadequate development of the mycorized zone around the host trees.
2. Quality of the Black Truffles may be lower than expected.
3. Invasion of the Truffière by undesirable species.
4. Insolvency or default of Operational Manager.
5. Loss of key staff with the necessary trufficultural skills.

12.5. Risk Management

Agricultural Risk

The Manager will monitor any mortality in the first growing season and will infill lost trees with seedlings at no cost to the Investors.

Public liability insurance

The Manager will arrange annual Public Liability insurance to a limit of \$5.0 million at no charge to the Investor.

Tree and crop insurance

Tree and crop insurance will be an option for Investors. Where possible MPA will arrange insurance and make access to that insurance available to Investors at the cost of the Investor.

Performance Bond

The Performance Bond provides funding, on a year by year basis, to ensure that TTPL has the financial capacity perform the agreed services on the Trufflelots in the period prior to the commencement of truffle production.

Further details are shown in Section 7.2 Financial Resources

13. Financial Returns

13.1. Investment Cashflow

The focus of the Lonsec financial performance measure is defined by the Internal Rate of Return (IRR) of the Project and related model sensitivities. Whilst not a holistic measure of project performance, the IRR analysis generates a single number that summarises the merits of an investment based on the cash flows. The IRR is compared with Lonsec's benchmarks. In order to comply with ASIC guidelines, the PDS and Prospectus does not have IRR estimations.

It is important to recognise that the Lonsec IRR estimates disclosed below should not be used as a basis for an investment decision by potential Investors. The Lonsec possible IRR outcomes are simply an assessment by Lonsec that the Project meets industry and Lonsec benchmarks, and is limited by the typical uncertainty of long term forecasts.

There is a considerable degree of judgement involved in making long-term forecasts, and future outcomes may differ substantially from the estimated Lonsec IRR estimates. Lonsec also examines the sensitivity of the

Project to varying assumptions which identifies those key variables which have the most sensitive correlation to potential Project returns. Lonsec strongly advises Investors and financial planners to simulate their own long term financial projections using their own selected assumptions to provide a basis for investment decision making. This is in line with current ASIC guidelines.

13.2. Financial Returns

Lonsec has estimated the ungeared mid-case assumption based scenarios for the Tasmanian Truffle Project No 3. The Project is expected to produce appropriate after-tax returns to Investors, based on the achievement of the key performance variables as listed in the PDS and Prospectus.

Because this offer is limited to Self Managed Superannuation Funds, returns to Investors have been taxed at the Superannuation Fund tax rate of 15.0%.

Table 13.1 - Tasmanian Truffle Project No 3 – Range of Expected Returns

Investment components	IRR after tax Ungeared*		
	Lonsec low case	Lonsec mid case	Lonsec high case
Truffle Project	9.3%	21.3%	25.4%
Shares in Truffles Three Landco Ltd	4.3%	4.3%	4.3%
Combined return	8.8%	19.8%	23.7%

The Upper, Mid and Lower case returns shown above have been generated by using the full complement of the upper and lower ranges for the assumptions shown in Table 11.1. These assumptions cover yield, net price, price inflation and cost inflation.

The results shown above demonstrate the moderate to high robustness of the returns generated by the Tasmanian Truffle Project No 3.

The return on the shares in Truffles Three Landco Ltd is significantly lower than the return from the Truffle Project, which results in the dilution of the combined return by approximately 1.5 percentage points.

13.3. Scenario Modelling

Lonsec has modelled a number of scenarios to reflect the impact on the project of varying the key assumptions. The key financial performance measure that Lonsec focuses on is the ungeared after tax IRR (Internal Rate of Return).

Table 13.2 - Scenario Modelling - Impact on Combined IRR

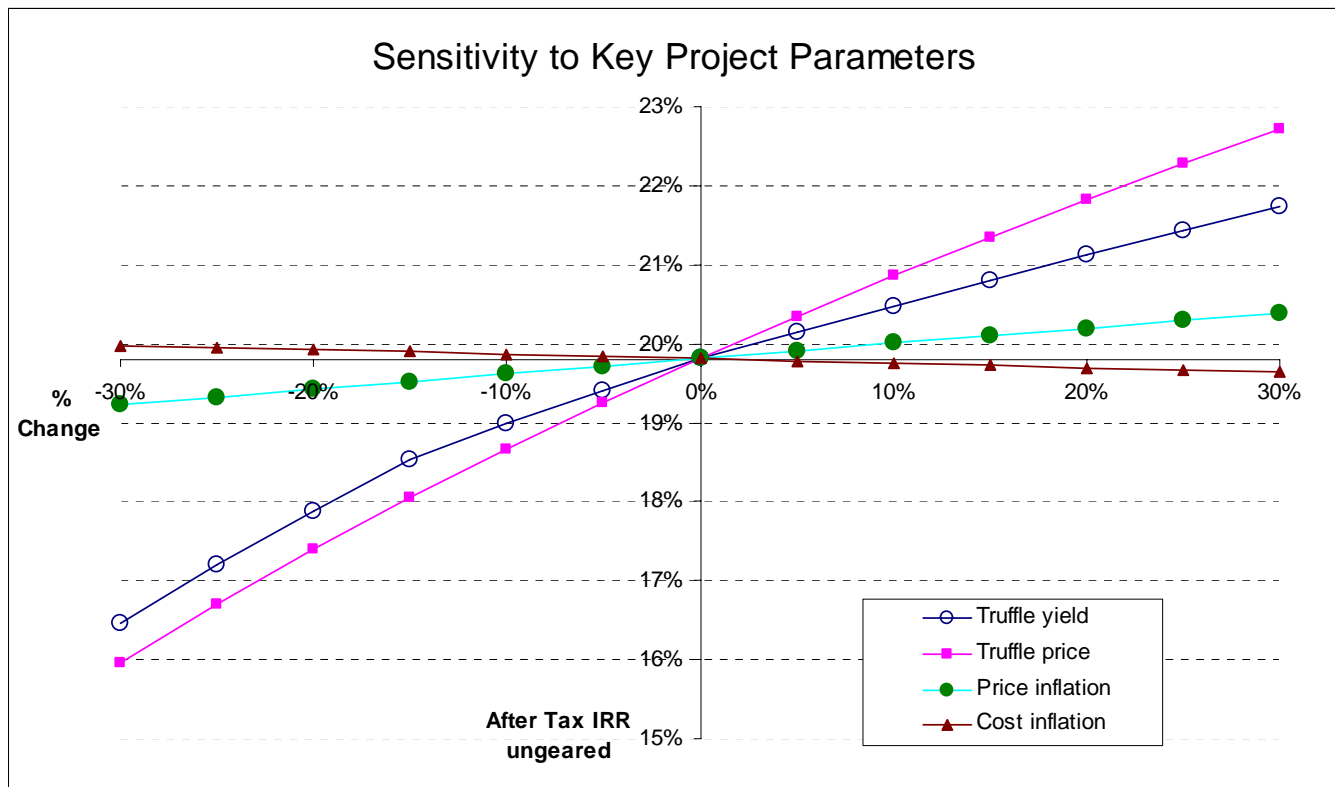
Scenario	Truffle price \$/kg (in 2007 year)	Truffle price escalation	Truffle yield kg per Lot	Combined IRR after tax ungeared
High case assumptions	1,875	2.5%	8.0	23.7%
Truffle price high	1,875	2.5%	7.0	22.7%
Truffle yield high	1,450	2.5%	8.0	20.8%
Mid case assumptions	1,450	2.5%	7.0	19.8%
Truffle price low	1,225	2.5%	7.0	18.6%
Truffle price escalation zero	1,450	0.0%	7.0	17.9%
Truffle yield low	1,450	2.5%	3.5	12.9%
Low case assumptions	1,225	0.0%	3.5	8.8%

The scenario modelling shows that the financial returns are robust within the range of truffle prices tested, but returns come under pressure when tested with low truffle yields. Low truffle yields are more likely outcome than low truffle prices. A movement in cost inflation has no significant impact on the Combined IRR.

13.4. Sensitivity Analysis

Chart 13.1 below identifies the sensitivity of potential project returns, subject to a change in key project parameters. The Lonsec Mid Case parameters were used as the basis for assessment about which each parameter was varied over a nominal range of +/- 30%.

Chart 13.1 - Sensitivity Chart of the Combined IRR outcomes over a range of key parameters



13.5. Zero IRR conditions

The following table shows the extent of the variations in yield and/or price that are needed to drive the after tax IRR to Investors down to zero.

At the zero after tax IRR position an Investor would receive back a sum of money exactly equal to the total of the initial outlay plus any annual payments that had been made. In this situation the Investor has not lost money, as such, but the Investor's financial position has been weakened because of the opportunity cost of that money, being the income foregone had the money been in a profitable investment.

The zero IRR position must not be seen as some form of a capital guarantee, because the project manager makes no such guarantee. If, for example, the average Truffle price fell by 85%, the after tax IRR would be negative 2.3% and the Investor would receive at harvest a sum of money less than the total of the initial outlay plus any ongoing payments that may have been made.

Table 13.4 - Scenario Modelling - Zero IRR conditions

Scenario	Truffle price \$/kg (in 2007 year)	Truffle yield kg per Lot	Combined IRR after tax ungeared
Truffle yield falls by 84%	1,450	1.1kg	0.0%
Truffle price falls by 83%	249	7.0kg	0.0%
Truffle yield and price both fall by 60%	583	2.8kg	0.0%

The numbers in **bold type** indicate the assumptions that are being varied in the scenario analyses.

It can be seen from this analysis that the Tasmanian Truffle Project No 3 has robust financial returns, requiring a 83% to 84% fall in either yield or price to drive the IRR down to zero.

14. Taxation

14.1. Product Ruling

The ATO has not been requested to issue a Product Ruling in respect of this project.

The offer of investment made for Trufflelots in the Project and for shares in the Company is limited to entities defined as Self Managed Superannuation Funds as provided in section 17A of Superannuation Industry (Supervision) Act 1993 (SISA).

No Trufflelots or shares will be issued to an entity that is not a Self Managed Superannuation Fund.

15. Other Investor Benefits

15.1. Finance Packages

The RE does not offer Investor finance.

The offer is limited to Self Managed Superannuation Funds. As such, borrowing to fund an investment in this project is not permitted.

15.2. Reports

The project provides for an initial inspection by an independent expert 6 months post-planting and thereafter every three years, with a report being provided to the Manager.

The Manager will provide an independent expert's report to Investors, within a reasonable time from Project commencement and thereafter not less than every 3 years, reviewing operations since planting, the results of operations and any significant changes relating to Black Truffle growing activities.

The Manager will also provide an annual written report to the Investor in relation to the progress of the Truffière.

15.3. Investor can maintain Trufflelot

Investors can carry out their own weed control in their Trufflelot on the condition that sufficient notice is provided by the grower to the Manager. It is considered that 14 days notice is appropriate if the Investor make this election. In carrying out this work the Investor must comply with all terms of the Truffière Management Agreement, and the Licence Agreement.

At the discretion of the Manager, the management fees payable by the Investor for the management of the Trufflelot may be reduced in any period that the Investor so chooses to conduct the weed control.

15.4. Carbon Credits

The Investor appoints the Manager as sole agent to market and sell any carbon credits. The Manager must not enter into any arrangement in relation to carbon credits that does or may have any deleterious effect upon the Truffière.

After payment of all costs and expenses incurred by the Manager in any sale process, the net proceeds or benefits of any sale of carbon credits are to be shared two-thirds to the Investor and one third to the Manager.

16. Analyst Disclosure & Certification

Analyst remuneration is not linked to the rating outcome. The Analyst(s) may hold the product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s) holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: 12 July 2007

Analyst: Don Begbie

Release Authorised by: Jim Blackburn

This report, dated 12 July 2007, expires when the initial offer closes or after twelve months or if there are any material changes in relation to the information contained in this report or any disclosure or offer document issued in relation to his offer. Lonsec reserves the right to change its opinion, rating and/or withdraw the report at any time on reasonable grounds.

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