

**COONAWARRA PREMIUM VINEYARDS PROJECT
NOTES TO JUNE 2005 FEES AND COSTS INVOICES**

Invoices issued June 2005

Two separate tax invoices have been issued in June 2005: one for fees and the other for recoverable costs that have been set off against grape proceeds.

The tax invoice for costs recovered, enclosed with this note, is for information purposes only so you know how much GST has been paid in the June 2005 quarter. This should be included in your BAS. The costs shown on it have been deducted from grape proceeds.

The normal management fee and grant of use fee invoice was sent to you on 1 June 2005. The calculation of management fees is discussed in the following paragraph. Depending on your choice you can either pay the whole invoice in full by 30 June 2005 or just pay \$500 per unit on account by 30 June 2005, with the balance to be set off against the final grape proceeds distribution in November. The section headed "Invoice payment terms" sets this out more fully.

Management Fees for 2005/6 – CPI Increase

The Project constitution requires the annual Adelaide CPI increase to be applied to the base management fees set out in the Prospectus (page 112). This year the increase was 2.17% (\$15.08) applied to the base fee for 2005/6 of \$696 resulting in the fee of \$711.08 per unit (last year \$678 plus CPI of 2.15% = \$692.58). [Please note the Project is actually one year later than the dates shown in the Prospectus].

Harvest Totals – grapes sold

869 tonnes (2004: 1,251) of grapes were harvested for Grant Burge Wines, Beelgara Estate and Casella Wines, of which 783 tonnes were pooled for the benefit of all growers operating through the 2,561 managed units. [The balance of 86 tonnes belongs to the unmanaged growers,]

In addition, 212 tonnes of grapes from the Nugan blocks (all the chardonnay and sauvignon blanc and 110 tonnes of merlot) were sold to Watson Wine Group on the same terms as the original Nugan contract and the sales to other wineries noted above. All these grape proceeds belong to the pool.

Agreement with Nugan Estate following rejection of their initial offer and based on their revised offer was reached immediately prior to harvesting the Shiraz and Cabernet Sauvignon to take all the Shiraz and Cabernet Sauvignon grapes from their blocks, at prices that are believed will be close to District Weighted Average Prices after bonuses and penalties. This amounted to 750 tonnes of which 695 are pooled and 55 belong to the unmanaged growers.

A total of \$1,199,000 has been invoiced to the wineries in respect of these 1,776 tonnes of pooled grapes. \$519,000 has been received to date with the balance receivable by 30 June 2005. This is two thirds of the value of the 2005 harvest, calculated at 2004 prices. A further instalment may become receivable by the Project at the end of September when the final 2005 prices are known and any adjustments are made for bonuses or penalties that may apply. This has been included in the table below in the column marked **. Growers need to be aware that the 2005 prices may be less than the 2004 prices, in which case the total proceeds will be less than that shown below. For this reason it is not possible to calculate or pay a grape distribution at this time.

2005 Pooled Harvest Summary

Variety	Tonnes of grapes	2004 DWA prices \$	Invoiced to date \$	Estimated 3rd (**) instalment	Total @ 2004 DWA prices
Chardonnay	99.51	\$1,447	\$95,994	\$47,997	\$143,991
Sauvignon Blanc	52.38	\$1,288	\$44,981	\$22,490	\$67,471
Petit Verdot	113.97	\$1,280	\$97,254	\$48,627	\$145,882
Merlot	285.92	\$952	\$166,004	\$83,002	\$249,006
Shiraz	593.72	\$890	\$322,015	\$161,008	\$483,023
Cabernet Sauvignon	655.27	\$1,146	\$472,767	\$236,383	\$709,150
	1,800.78		\$1,199,015	\$599,507	\$1,798,522
Per unit	0.703		\$468	\$234	\$702

Should \$1,798,000 be the final proceeds from grape sales this would result in gross grape proceeds of about \$702 per managed unit. The distribution of proceeds less any further costs to be deducted (see below) will be made on 30 November 2005.

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Processing Costs: 2005 Harvest Totals – Nugan Blocks

134 tonnes of merlot grapes were harvested for Nugan Estate, all of which were pooled. Of these 110 tonnes were sold to Watson Wine Group (see above) leaving 24 tonnes unsold. These grapes were not taken by Nugan as their initial offer to purchase these grapes was inadequate and the second offer was not received until after the grapes had to be harvested. The grapes could not be left on the vines as this would have been detrimental to the following year's crop. We had the choice of harvesting the Nugan grapes and leaving them on the ground (with nil proceeds and no prospects of any) or processing them into bulk wine. [Wine grapes cannot be stored long term.] We elected to process the grapes at Orlando Wyndham's Russet Ridge Winery, where the fruit purchased by Watson Wine Group was also processed, taking advantage of Watson Wine Group's bulk purchasing agreement. These grapes are expected to produce approximately 16,000 litres of bulk wine for sale.

Costs of \$410 per tonne of grapes, including additives, have been incurred in processing and storing the 2005 bulk wine. This amounts to \$10,039 (\$3.92 per grower unit), which has been offset against grape proceeds. 2005 harvesting costs of approximately \$90 per unit (inc. GST) have also been paid by deduction from grape proceeds this year.

Processing and Storage Costs: 2004 Harvest – Nugan Blocks

43,250 litres of bulk wine from the 2004 vintage have been sold to date, realising \$82,629. 907,000 litres of Project wine remains on hand. Almost 580,000 litres of this wine had to be moved from Great Stone Winery due to storage constraints and it is now held at Boars Rock Wineries (McLaren Vale and Langhorne Creek) and Cockatoo Ridge Winery (Barossa).

Various costs have been offset against bulk wine and grape sale proceeds, or will be offset once the payments due on 31 May 2005 have been received. These costs comprise outstanding processing costs (third instalment of the processing charge, plus filtering of the bulk wine to make it ready for sale), the balance of 2004 harvest costs not previously withheld, transport and storage costs incurred to date for the 2004 bulk wine and legal costs.

Further storage and marketing costs may continue to be incurred in relation to the 2004 bulk wine. These further costs will either be invoiced to you or be deducted from sale proceeds. Agents have been retained to sell the bulk wine. It is hoped that the wine can be sold in the near future, but given the difficult state of the market this may not be possible.

Even in the current climate we still consider it reasonable to assume that the bulk wine will be sold for more than the harvesting, processing, storage and marketing costs required to make it.

Costs deducted from estimated gross proceeds

	<u>Total \$</u>	<u>Per unit \$</u>
2005 estimated grape proceeds, at 2004 prices, as above	1,798,522	702.27
Add proceeds of 2004 bulk wine sales to date	82,629	32.26
	1,881,151	734.54
Less costs incurred on behalf of Growers:		
Balance of 2004 harvest costs brought forward	108,473	42.36
Balance of processing costs for 2004 bulk wine	118,955	46.45
Legal costs re Nugan dispute	20,919	8.17
Storage costs 2004 bulk wine	61,665	24.08
Transport costs moving 2004 bulk wine	35,918	14.02
Harvest costs 2005 (estimate)	204,880	80.00
Processing costs 2005 (24 tonnes merlot)	10,039	3.92
	560,849	219.00
Add GST	56,085	21.90
Total costs deducted/recovered	616,934	240.90
Net proceeds #	1,264,217	493.64
# subject to further storage, transport and marketing costs that may be incurred relating to bulk wine inventory, and fluctuations in grape prices		

A tax invoice for these costs is included with these notes to enable you to claim the GST paid during the June 2005 quarter on your share of these charges.

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Invoice Payment Terms

Those growers on a cash basis of accounting and wishing to claim the full tax deduction for these fees in the 2004/5 financial year (subject to the non-commercial loss provisions) should pay the management fee and grant of use fee invoice dated 1 June 2005 in full before 30 June.

Distributions of proceeds will be made on 30 November 2005 once final amounts are determined and collected. Provided all previous invoices have been paid up to date, should you wish to do so you may offset part of your management fees and grant of use fees by the anticipated net grape proceeds as set out in the table above. Accordingly we will accept payment of \$500 per unit by 30 June 2005 on account, with the balance to be settled by the grape distribution provided those proceeds are collected. Any net proceeds from further sales of bulk wine received prior to 20 November 2005 will be distributed on 30 November. Proceeds from subsequent sales will be distributed next year.

Calculation of the minimum amount payable per unit by 30 June 2005 is as follows:

Management fee and grant of use fee invoiced per unit		961.77
Estimated amount available from grape proceeds	493.64	
Less amount held over to cover price fluctuations etc	31.87	
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Minimum amount payable per unit by 30 June 2005		<hr/> 500.00

Formal Notification

In July all growers will be sent the usual notification of final harvest details, collection of grape proceeds and taxation information for the 2004/5 financial year regarding their holding in the Project.

Nugan claim

An amended claim has been served on Nugan. The amended claim seeks damages for non-payment of the balance of the 2003 harvest, proceeds of the 2004 harvest, any shortfall from the 2005 harvest and for repudiation of the contract for the 2006 to 2012 harvests. This claim is likely to reduce as damages are mitigated through sale of bulk wine. A directions hearing is scheduled for 15 July 2005 and a date is yet to be set for the trial. Nugan has also indicated that it wishes to recommence settlement discussions. We are waiting on a settlement proposal from Nugan. Growers will continue to be kept informed.

The litigation with Nugan is not an isolated instance in the wine industry. Grape growers generally have suffered the actions of many wineries & grape purchasers refusing to honour existing contracts and/or forcing a renegotiation of terms of existing contracts.