

**COONAWARRA PREMIUM VINEYARDS PROJECT NO.2 STAGE 1
NOTES TO JUNE 2005 FEES AND COSTS INVOICES**

Invoice issued June 2005

A tax invoices has been issued in June 2005 for recoverable costs that have been partly set off against grape proceeds. It is enclosed with this note. The costs shown on the tax invoice have been deducted from grape proceeds and bulk wine sales to the extent possible and the balance is payable by 15 July 2005.

The normal management fee and grant of use fee invoice for the year ending 30 June 2005 was sent to you in March 2005 and should have been paid by 31 March 2005.

Management Fees for 2004/5 – CPI Increase

The Project constitution requires the annual Adelaide CPI increase to be applied to the management fees for the previous year. This year the increase was 2.15% (\$20.07) applied to the fee for 2003/4 of \$933.45 resulting in the fee of \$953.52 per unit (last year \$889.00 plus CPI of 5.0% = \$933.45).

Harvest Totals – grapes sold

368 tonnes of grapes were harvested from the first stage of Project No.2. Despite the efforts of the Responsible Entity (RE) to obtain long term contracts for sale of the grapes there are no long term contracts in place for the sale of any grapes. The well-publicised over-supply of red grapes continues this year. A large number of wineries were approached and three offers were received for the 2005 sauvignon blanc crop and two offers for the chardonnay crop. All the white wine grapes were sold. No offers were received for the red grapes and those grapes were not sold. The proceeds of the sauvignon blanc and chardonnay crops will make a contribution towards the harvest costs of the Project 2 vineyards and other recoverable costs.

All the chardonnay (25 tonnes) and sauvignon blanc (22 tonnes) were sold to Watson Wine Group (WWG) at District Weighted Average Prices. These sales are receivable in three instalments.

A total of \$42,878 has been invoiced to WWG in respect of these grapes. \$21,000 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. 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.

2005 Harvest Summary

Variety sold	Tonnes of grapes	2004 DWA prices \$	Invoiced to date \$	Estimated 3rd (**) instalment	Total @ 2004 DWA prices
Grapes Sold					
Chardonnay	25.24	\$1,447	\$24,348	\$12,174	\$36,522
Sauvignon Blanc	21.58	\$1,288	\$18,530	\$9,265	\$27,795
Total grapes sold	46.82		\$42,878	\$21,439	\$64,317
Per unit	0.085		\$78	\$39	\$117
Grapes not sold					
Merlot	87.90	\$952	\$0	\$0	\$83,681
Shiraz	142.48	\$890	\$0	\$0	\$126,807
Cabernet Sauvignon	91.12	\$1,146	\$0	\$0	\$104,424
Total grapes not sold	321.50		\$0	\$0	\$314,912
Per unit	0.585		\$0	\$0	\$573

Should \$64,317 be the final proceeds from grape sales this would result in gross grape proceeds of about \$117 per unit..

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Processing Costs: 2005 Harvest

321 tonnes of red wine grapes were harvested but not sold. The grapes could not be left on the vines as this would have been detrimental to the following year's crop. The RE had the choice of harvesting the 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.] The RE elected to process the grapes at Orlando Wyndham's Russet Ridge Winery, where the fruit purchased by WWG was also processed, taking advantage of WWG's bulk purchasing agreement. These grapes are expected to produce approximately 209,000 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 amount is payable to the winery in 4 instalments (May, July, August and September) totalling \$131,815 (\$240 per grower unit). An invoice for the first two instalments (\$120 per unit) is enclosed and is payable to the RE by 15 July 2005. The other two instalments of the processing charges are payable in August and September 2005. To the extent possible these costs will be settled by deduction from proceeds of future sales of bulk wine. However, should proceeds not be sufficient a further invoice will be forwarded to growers for payment in September 2005.

Processing and Storage Costs: 2004 Harvest

2,797 litres of bulk wine from the 2004 vintage have been sold to date, realising \$6,750. A further 84,000 litres of Project wine remains on hand, mainly at Great Stone Winery with a little at Boars Rock Winery (McLaren Vale) 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 by 30 June 2005 have been received in full. These costs comprise outstanding processing costs for 2004 bulk wine (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.

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 partly deducted from estimated gross proceeds

	<u>Total \$</u>	<u>Per unit \$</u>
2005 estimated grape proceeds, at 2004 prices, as above	64,317	116.94
Add proceeds of 2004 bulk wine sales to date	6,750	12.27
	71,067	129.21
Add GST on bulk wine sales	675	1.23
	71,742	130.44
<u>Less costs incurred on behalf of Growers:</u>		
Balance of 2004 harvest costs brought forward	28,606	52.01
Balance of processing costs 2004	3,163	5.75
Storage costs 2004 bulk wine	6,452	11.73
Transport costs moving 2004 bulk wine	319	0.58
Harvest costs 2005 (estimate)	54,098	98.36
First 2 instalments of processing costs 2005	66,000	120.00
	158,637	288.43
Add GST	15,862	28.84
Total costs deducted/recovered	174,499	317.27
Net proceeds (deficit) #	(102,756)	(186.83)

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 the undeducted part of these costs is included with these notes.

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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 cost recovery invoice dated 15 June 2005 in full before 30 June. Otherwise it is payable by 15 July 2005.

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.

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.