BENSON PARTNERS
CORPORATE ADVISORY PTY LTD

14 February 2005

Mr D Traeger
Executive Director
Dromana Estate Limited
Level 9
406 Collins Street
MELBOURNE VIC 3000

Dear Mr Traeger

INDEPENDENT EXPERT REPORT PURSUANT TO CHAPTER 10.1 OF THE ASX LISTING RULES

Introduction

Dromana Estate Limited ("Dromana" or "the Company") is a company listed on the official list of the Australian Stock Exchange ("ASX"). Dromana produces and distributes a range of premium, ultra premium and Italian wines in both domestic and export markets. The Company produces its own grapes and draws fruit from properties throughout Victoria in a number of regions.

You have requested Benson Partners Corporate Advisory Pty Ltd ("Benson") to prepare an Independent Expert's Report in connection with the proposed assignment of the security and the proposed issue of options to Twelfth Vilmar Pty Limited as bare trustee for itself, Harvard Nominees Pty Limited and Richard and Isabella Green ("the Proposed Transaction"). Twelfth Vilmar Pty Limited ("Twelfth Vilmar") is an entity associated with Mr Geoff Bell, a Director of Dromana. Harvard Nominees Pty Ltd ("Harvard") is an entity associated with Mr David Craig, a Director of Dromana. Messrs Bell, Craig and Green (collectively "the Twelfth Vilmar Lenders") are directors of Dromana so shareholder approval is required for the Proposed Transaction. A brief summary of the Proposed Transaction is set out below:

- Issue of 1.2 million options with an exercise price of 27 cents and an expiry date of 14 January 2009. The options are American options as they can be exercised at any time prior to the date of their expiry.

The options are being issued to the Twelfth Vilmar Lenders at no consideration for their accepting the assignment of the Dromana debt owing to Rabo Australia Limited ("Rabo") on different terms to the original Rabo terms.

We understand that the issue of the options and the assignment of the Rabo debt are interrelated so that if shareholders do not approve the proposed option issue then the Twelfth Vilmar Lenders could call for immediate repayment of the debt.

Further details of the Proposed Transaction are summarised in our report and set out in detail in the accompanying Explanatory Memorandum.

- The Proposed Transaction is subject to a number of key conditions precedent, including inter alia, the Dromana shareholders approving the issue of options.
- The directors of Dromana have requested Benson to independently assess whether the Proposed Transaction is fair and reasonable to non-associated shareholders. This report has been prepared by Benson to accompany a Notice of Meeting to convene a General Meeting of Dromana in March 2005 to seek shareholder approval for the Proposed Transaction.

This report has been prepared solely for the purpose of assisting the non-associated shareholders in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose, including but not limited to investment or lending decisions in relation to Dromana.

Summary and Conclusions for Dromana's Shareholders

In our opinion, the Proposed Transaction, on balance, **is fair and reasonable** to the non-associated shareholders of Dromana.

Our opinion is based solely on information available at the date of this report.

The principal factors that we have taken into account in forming our opinion are summarised below and discussed in more detail in Section VI of this report.

- The assignment of the security to Twelfth Vilmar Pty Ltd in the form of the fixed and floating charge over the assets of Dromana, would, if approved by the Dromana Shareholders, simply result in Twelfth Vilmar Pty Ltd holding the same security interest over the same debt obligation as that previously held by Rabo.
- The Company has previously issued share options to Directors in lieu of cash payments for their services. The issue of the Proposed share options to the Twelfth Vilmar investors preserves the Company's cash resources and is effectively in lieu of a cash payment such as an establishment fee for the provision of the financing facility.

- The Company was in default of certain covenants of the Rabo facility. This default meant that the Rabo facility could be recalled at 31 December 2004 and this would have required the Company to find an alternative source of debt finance.
- The terms and conditions of the replacement financing facility provided by the Twelfth Vilmar Lenders are better than the terms of the Rabo facility.
- The Twelfth Vilmar facility does not contain a line fee and borrowings from other debt providers would have contained line fees at least equal to the 1% in the Rabo facility.
- If the options are exercised, the Company's net assets will increase by $324,000.
- The options are unlisted.
- We consider the change in the financing covenants of the Rabo facility to the Twelfth Vilmar facility is positive for shareholders.
- The Twelfth Vilmar facility may provide greater flexibility to the Company in terms of both debt and equity fundraising.
- The value of $142,800 we have determined for the options will need to be expensed by the Company. This will reduce its reported earnings in those periods where the expense occurs.
- The crystallisation of a $100,000 loss by Rabo in assigning the facility to the Twelfth Vilmar Lenders indicates that Rabo had concerns about the recoverability of the loan. Undoubtedly, possible other lenders could have shared this view and Dromana's refinancing options, at least on terms as favourable as the Twelfth Vilmar facility, were probably limited. Given this situation, it is reasonable to consider that Dromana, and thus the non-associated shareholders, are better off due to the replacement of the Rabo facility with the Twelfth Vilmar facility.
- The provision of the Twelfth Vilmar facility is dependent upon shareholders approving the grant of the options to the Twelfth Vilmar Lenders. We understand that if the option grant is not approved then the Twelfth Vilmar Lenders could recall their loan. If this were to occur then the Directors would need to revisit the financing facilities offered by other lenders, which were considered to be less attractive than that offered by the Twelfth Vilmar Lenders.

Other Matters

Acceptance or rejection of the Proposed Transaction are matters for individual shareholders based on their own views as to value, risk profile, liquidity preference, portfolio strategy and tax position. Dromana shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult a professional advisor.

Structure of Report

The balance of this report is set out in the following sections:

I. Terms of the Proposal

II. Basis for our Evaluation of the Proposed Transaction

III. Profile of Dromana

IV. Share Capital and Ownership of Dromana

V. Value of Dromana Options

VI. Assessment of whether the Proposed Transaction is Fair and Reasonable to the non-associated Shareholders

Appendices

A. Qualifications and Declarations

B. Sources of Information

Yours sincerely

PETER I RAYNER
Director

MICHAEL CAIN
Director

I. TERMS OF THE PROPOSAL

We outline below a summary of the Proposed Transaction.

By way of background, we note that Rabo has agreed to assign their $1.3 million facility to Twelfth Vilmar for $1.2 million. At the date of the assignment, 7 January 2005, Dromana owed Rabo some $1.3 million and was in breach of the Rabo loan covenants. Subject to Dromana shareholder approval, Rabo will assign to Twelfth Vilmar the security held by Rabo over the assets of Dromana as security for the Rabo facility.

Twelfth Vilmar proposes to alter the terms of the financing facility so that its covenants are not as restrictive as those required by Rabo. A comparative table setting out the differences between the Rabo facility and that proposed by Twelfth Vilmar is contained in the Explanatory Memorandum which includes this report. We summarise below the key differences between the two facilities:

- The requirement for quarterly consolidated financial accounts. It has been replaced by a requirement for half yearly consolidated financial accounts.
- A series of financial undertakings with respect to equity ratios of 60% and debt service cover ratio of 1.3 times will no longer be required.
- Facility documentation requirements including representations and warranties, undertakings and negative pledges, events of default, etc are no longer applicable.
- Twelfth Vilmar must provide Dromana with six months notice prior to terminating this facility.
- Advances may be repaid at any time without notice or cost and a line fee of 1% per annum on the facility limit will no longer apply.

In consideration for these proposed changes to its financing facility, Dromana will issue 1,200,000 options to the Twelfth Vilmar Lenders for **nil** consideration. The options will have an exercise price of 27 cents each and can be exercised at any time prior to their expiry on 14 January 2009.

The financial effect of this debt assignment is that Dromana's external borrowings will still total $1,300,000 but the terms of the borrowings will be different to those existing previously under the Rabo facility. Details of the Proposed Transaction are set out in detail in the Company Explanatory Memorandum. The Proposed Transaction is subject to a number of key conditions precedent, including inter alia, the Dromana shareholders approving the issue of the options.

II. BASIS FOR OUR EVALUATION OF THE PROPOSED TRANSACTION

Purpose of the Report

ASX Listing Rules provide that an entity shall not issue or agree to issue equity securities to a related person without the approval of holders of ordinary securities. Under the Proposed Transaction, the Company is to issue securities to the Twelfth Vilmar Lenders who are directors of the Company. Chapter 10 of the ASX Listing Rules require Dromana to provide shareholders with an Independent Expert's Report stating whether the Proposed Transaction is fair and reasonable when considered in the context of the interests of the shareholders, other than those involved in the Proposed Transaction or persons associated with such persons (i.e. the non-associated shareholders). The independent director has requested Benson to independently assess whether the Proposed Transaction is fair and reasonable to non-associated shareholders to satisfy this obligation.

Our Approach

The term "fair and reasonable" does not have any statutory definition, although overtime a commonly accepted meaning has evolved. Policy statements issued by the Australian Securities Commission, the predecessor to ASIC, in particular Policy Statements 74 and 75, provide some guidance to the use of that term.

Policy Statement 75 attempts to provide a precise definition of fair and reasonable. The Policy Statement continues earlier regulatory guidelines that created a distinction between "fair and reasonable". Fairness is said to involve a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. In determining fairness, any existing entitlement to shares by a bidder is to be ignored. Reasonableness is said to involve an analysis of other factors that shareholders might consider prior to accepting a takeover offer such as:

- the bidder's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer;
- the liquidity of the market for the target company's shares; and
- the options for the target in the event that the bid does not proceed.

Policy Statement 74 states that what is fair and reasonable for Non Associated Members should be judged in all the circumstances of the proposal. The likely advantages and disadvantages for the Non Associated Members, should the proposal proceed, should be compared with the advantages and disadvantages should it not. The effect of the proposed changes on shareholder value is only one element of this assessment. Accordingly, "fair and reasonable" must be capable of broad interpretation to meet the particular circumstances of each transaction. This involves a judgement on the part of the expert as to the alternatives available. On this basis, a proposal will be *fair and reasonable* if the non associated shareholders will, on balance, be better off if the proposal is accepted.

For the purpose of our opinion, market value is defined as the price that could be negotiated in an open and unrestricted market between a willing, knowledgeable but not anxious buyer and a willing, knowledgeable but not anxious vendor acting at arms length, each believing that they have complete information with respect to the asset being sold.

In forming our opinion as to whether the Proposed Transaction is fair and reasonable we have treated the concepts of fairness and reasonableness as a single opinion, that is, the Proposed Transaction is or is not fair and reasonable.

In forming our opinion as to whether the Proposed Transaction is fair and reasonable we have had regard (inter alia) to the following factors:

- the assignment of the charge over the assets of the company would result in Twelfth Vilmar Pty Ltd holding the same security interest over the same debt obligation as that previously held by Rabo;
- the value of the options being granted to the Twelfth Vilmar Lenders by Dromana for nil consideration;
- the terms and conditions of the replacement financing facility to be provided by Twelfth Vilmar;
- the potential impact of the Proposed Transaction on the financial position of Dromana; and
- other advantages and disadvantages which may impact the non-associated shareholders of Dromana in the event that the Proposed Transaction proceeds.

We have also given due consideration to relevant matters in other ASIC guidelines, including Practice Note 42 (Independence of Experts' Reports) and Practice Note 43 (Valuation Reports and Profit Forecasts). The Policy Statements and Practice Notes reflect ASIC's underlying philosophy that the premium for control of a company be shared by all members of that company.

Information Used

In preparing this report, we have used and relied upon the information set out in Appendix B and representations made by Dromana management. Information set out in this report for the year ended 30 June 2004 is based on Dromana audited financial statements for this period and information for all periods after June 2004 are based on unaudited management accounts. We have conducted checks, enquiries and analysis on the information provided to us which we consider appropriate for the purposes of this report. Based on this evaluation, we consider that the information used as the basis for forming the opinions in this report is accurate, complete and not misleading and we have no reason to believe that material information relevant to our report has been withheld. Whilst our work has involved an analysis of financial information and accounting records, it does not constitute an audit of Dromana in accordance with Australian Auditing Standards and accordingly no such assurance is given in this report. Benson has been provided with historic and prospective information prepared by Dromana. Whilst Benson has in part relied upon this information in preparing this report, Dromana remain responsible for all aspects of this information. Achievement of prospective results is not warranted or guaranteed by Benson. Prospective results are by their nature uncertain and are dependent on a number of future events, which cannot be guaranteed. Actual results may vary significantly from the prospective information and any variations may affect our assessment.

Our assessment has been made as at the date of our report. Economic conditions, market factors and performance change may result in this report becoming outdated. We reserve the right to review our assessments and, if we consider it necessary, to issue an addendum to our report, in the light of any relevant material or information which subsequently becomes known to us prior to the General Meeting to vote on the Proposed Transaction.

Scope Exclusions

This report has been prepared solely for the purpose of assisting the shareholders in Dromana in considering whether to approve the Proposed Transaction. This report has not been prepared to provide information to parties considering the purchase or sale of any equity or other security in Dromana. Accordingly, we do not assume any responsibility or liability for any losses suffered as a result of the use of this report contrary to the provisions in this paragraph.

III. PROFILE OF DROMANA

Corporate Background

Dromana is a Victorian based producer of premium and ultra premium Australian wine and markets its products under seven brands. Dromana acquired the assets and business of Dromana Estate Vineyards in April 2000, which was established in 1982. The Company has been acquisitive, purchasing Mornington Vineyard Estate in June 2000, a 49% interest in the Yarra Valley Hills joint venture in November 2000 and an 80% interest in David Traeger Wines in November 2002. Since its beginning, Dromana has been a pioneer in establishing the Mornington Peninsula as one of Australia's premier cool climate wine regions.

In the United Kingdom, Dromana currently sells its wines through distributors to restaurants and hotels. On 12 January 2005, the Company's shares were listed on the AIM Market of the London Stock Exchange with 5,454,545 new shares being issued at a price of 11 pence, raising gross funds of £600,000. The Company's main role in listing on AIM is to raise its profile in the UK and expand its market presence. The Company plans to introduce to the UK a loyalty program, currently operating in Australia, for restaurant and bar owners in the form of a 4 year share option. Dromana exports two of its seven brands to the UK restaurant and hotel trade. The wine retails at under £10 a bottle. Dromana intends to progressively expand the portfolio of wine available in the UK to all seven of its brands. The UK is the largest importer of wine by value in the world and six Australian wines are in the Top 10.

Dromana's key markets include: Ireland, Canada, Russia, Singapore as well as the UK and Australia. It has recently launched its wine in Korea and Japan. Once firmly established in the UK, Dromana intend to target the rest of Europe.

We understand Dromana is in a recovery phase having spent two years restructuring the Company. The strong Australian dollar, combined with poorly performing Australian distributors has impacted on Dromana's profitability. The proceeds of the AIM listing have been used to increase working capital, repay debt and to assist in further increasing sales both domestically and internationally, especially in the UK, one of the Company's largest export markets.

Financial Position

Dromana's unaudited consolidated net assets as at 31 December 2004 and audited consolidated net assets as at 30 June 2004 are summarised below.

Table 1: Summary of Dromana's historic net asset position

	31-Dec 2004 $'000	30-Jun 2005 $'000
Current Assets		
Cash	42	343
Receivables	576	315
Inventories	4199	4144
Other	59	2
Total Current Assets	**4876**	**4804**
Non Current Assets		
Receivables	171	249
Equity Accounted Investments	1048	1229
Property, Plant & Equipment	1102	1444
Total Non Current Assets	**2321**	**2922**
Total Assets	**7197**	**7726**
Current Liabilities		
Payables	1343	1669
Interest Bearing Liabilities	1722	1563
Provisions	34	27
Total Current Liabilities	**3099**	**3259**
Non Current Liabilities		
Payables	11	44
Interest Bearing Liabilities	0	334
Total Non Current Liabilities	**11**	**378**
Total Liabilities	**3110**	**3637**
Net Assets	**4087**	**4089**

Source: Dromana's 2004 Annual Report and Management Accounts 31 December 2004

Financial Performance

Dromana's unaudited consolidated financial results as at 31 December 2004, and audited consolidated financial results as at 30 June 2004 are summarised below.

Table 2: Summary of Dromana's historic financial performance

	31-Dec 2004 $'000	30-Jun 2004 $'000
Total revenue	1538	2299
Earnings before Interest and tax	(333)	(4,784)
Net Interest	(56)	(147)
Operating Loss	(389)	(4,931)

Source: Dromana's 2004 Annual Report and Management accounts 31 December 2004

The Company has not traded profitably for the past two financial years and although an improved financial performance is forecast, it is unlikely that a dividend will be declared for the current financial year. Dividends in future periods will be dependent upon the success of sales strategies currently being implemented. In this context, we understand the Company will need to significantly increase sales over the next six months if it is to be cashflow positive.

Rabo Facility

We understand that in October 2004 the Company was in default of certain covenants of the Rabo facility. The Company held discussions with Rabo and various other financial institutions concerning a new facility. The Company resolved that the best option was to assign the debt and security to Twelfth Vilmar and for the Twelfth Vilmar Lenders to repay Rabo.

In effect, the Twelfth Vilmar Lenders have provided the funds on terms which were not available to the Company at the time the Rabo facility required replacement.

IV. SHARE CAPITAL AND OWNERSHIP OF DROMANA

Recent Share Issues

The issued share capital of Dromana as at 2 February 2005 is 26,870,524 fully paid ordinary shares. Since 30 June 2004, in addition to the AIM listing share issue discussed above, the Company has issued 1,607,155 shares and raised $327,502.

In addition, as at this date Dromana has issued 7,759,600 options over ordinary shares as set out below.

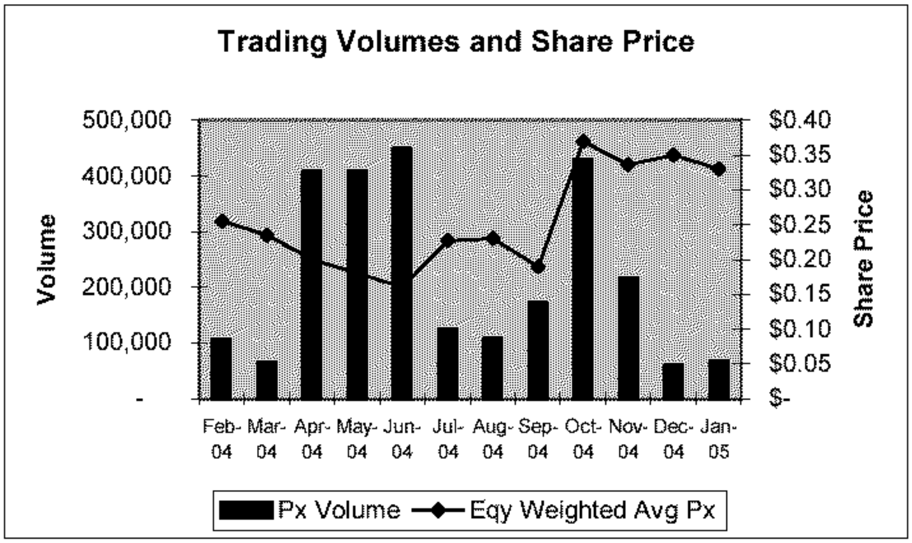
Table 3: Issued Options

ASX Code	Security Description	Expiry Date	Exercise Price	Number
DMYO	Listed Options	30/09/05	$1.50	1,175,233
DMYAI	Unlisted Options	20/06/08	$0.60	1,890,000
DMYAO	Unlisted Options	09/10/08	$0.25	600,000
DMYAQ	Unlisted Options	01/05/05	$1.38	100,000
DMYAS	Unlisted Options	10/09/05	$1.50	860,667
DMYAU	Unlisted Options	30/06/08	$0.25	250,000
DMYAY	Unlisted Options	08/10/09	$0.25	400,000
DMYAM	Unlisted Options	30/11/09	$0.25	750,000
DMYAQ	Unlisted Options	28/11/07	$0.80	100,000
TBA	Unlisted Options	12/01/10	$0.27	600,000
TBA	Unlisted Options	30/06/08	$0.25	33,700
TBA	Unlisted Options	12/01/10	$0.27	1,000,000

Under the Loyalty Program, Dromana has issued 33,700 of the available 2,000,000 options over ordinary shares exercisable at 25 cents on or before 30 June 2008. At the date of this report only options granted in the initial three months setup of the program have been issued.

Share Price and Volume History

The following chart provides a summary of the monthly weighted average trading prices and volumes in Dromana's shares from February 2004 to January 2005.



Volume Weighted Average Market Price

Benson has also considered the volume weighted average market price for 10, 25 and 45 day periods to 4 February 2005.

Table 4: Weighted Average Prices - cents

Dromana	4 Feb 2005	10 days	25 days	45 days
Closing Price	31.0			
Weighted Average Price		32.3	32.5	33.0

Source: Bloomberg

Trading in Dromana Shares

An analysis of the trading volume in Dromana's shares in the period to 1 February 2005 is set out below.

Table 5: Trading liquidity in Dromana's shares

Period prior to 4 Feb 2005	High cents	Low cents	Weighted average cents	Volume	As a % of issued shares (26,870,524 @24/02/05)
1 week	33.0	31.0	32.0	51,600	0.19%
1 month	34.5	31.0	32.5	99,600	0.37%
2 months	35.0	31.0	33.0	172,050	0.64%
6 months	39.5	18.0	30.1	1,017,578	3.79%
12 months	39.5	16.0	25.8	2,681,173	9.98%

Source: Bloomberg

The above analysis illustrates that Dromana shares have historically exhibited relatively low liquidity. We note that over the relevant six month period to 4 February 2005, an average of approximately 7,800 Dromana shares were traded daily.

Ownership Structure

The current ownership structure of Dromana is as follows:

Table 6: Top 20 Holding

Ordinary Shares	7 February 2004
Total ordinary shares on issue	26,870,524
Top 20 shareholders – Ordinary Shares	14,875,511
Top 20 shareholders – percentage of ordinary shares on issue	55.4%

Source: Company Records

Effect of the Proposal on the Current Capital Structure

If the Proposed Transaction is approved, a total of 26,870,524 shares and 8,959,600 listed and unlisted options will be issued. The pro forma capital structure of Dromana, if the proposal is approved and the options are issued, is summarised below.

Table 7: Capital Structure

	Number of Shares
Current Number of Ordinary Shares	26,870,524
Current options	7,759,600
Proposed options	1,200,000
Total shares on issue if all options exercised	35,830,124

Of the current issued options, we consider it is unlikely that 4,125,900, some 53.2% of them, will be exercised. This opinion is based on both the exercise prices, ranging from $0.60 to $1.50 with expiry dates ranging from May 2005 to June 2008, and Dromana's current share price of $0.31 and our understanding that no dividends are expected to be paid in the next two years.

Effect of the Proposal on the Current Shareholding Structure

If the proposal is approved and 1.2 million options are issued then the number of Dromana options on issue will increase to 8,959,600. As noted, we consider it is unlikely that 4,125,900 of these options will be exercised prior to expiry. If this assumption is correct and both the other existing and the proposed options are exercised then Dromana's issued shares will total 31,704,224. This means the shares issued in relation to the proposed options will represent some 3.8% of the expanded share capital. As the Twelfth Vilmar Lenders interest is held equally for each of the three director's interests, this means that their respective increased ownership interest in the Company will incrementally increase by 1.26% of the total issued shares.

V. VALUE OF DROMANA OPTIONS

An option is a security that provides the owner with the right, but not the obligation, to either buy or sell a specified asset, at a specified price, by or on a specified date.

Generally, there are two types of option contracts:

- **A call option** gives the buyer the right to purchase the specified asset. Upon exercise of that right, the writer of the option is obliged to sell the underlying assets to the option holder.

- **A put option** gives the buyer the right to sell the specified asset. Upon exercise of that right, the writer of the option is obliged to buy the underlying asset from the option holder.

The key elements of an option can therefore be summarised as follows:

(a) underlying asset;

(b) exercise price;

(c) premium; and

(d) exercise date.

(a) Underlying Asset

The option must relate to a clearly identifiable asset, eg, a specific parcel of shares. As the option effectively limits "downside risk", the current or "spot" price of this asset and the variability of this spot price are important, ie: an asset with a highly volatile price will offer the potential of high profit, but as the option will negate the possibility of high losses, the option will be considered more valuable than an option on an asset with "lower volatility" (ie, variability of spot price).

(b) Exercise Price

This is the price for which the relevant asset can be bought (in the case of a call option) or sold (in the case of a put). It is also referred to as the strike price. As the exercise price is deferred it represents a liability potentially payable at a future date. Therefore, the value of an option will be influenced by the present value of this exercise price.

(c) Premium

This is the price paid by the buyer of an option to the writer or seller of the option. In respect of the Proposed Options there is no premium payable.

(d) Exercise Date

This is the date on which an option expires, ie, after which the option can no longer be exercised. It is important to distinguish between:

(i) American options, which are capable of being exercised by the holder anytime up until expiry date; and

(ii) European options, which are capable of being exercise by the holder only on the specified expiry date.

Given the added risk with an American option (ie, it may be exercised at any time, thereby taking advantage of short term pricing idiosyncrasies) normally these options are priced higher than a comparable European option.

The longer the period until the exercise date, the greater is the possibility for gain and the longer is the deferral period. Therefore, all else being equal, the greater the period to expiry, the greater the option value should be.

VALUATION METHODOLOGY

Methodologies normally employed in valuing an option include the market method value methodology or the investment methodology.

The market method considers the value of the asset based on prices at which similar assets have been traded in arms length transactions. This method assumes the risks and income earning potential of those assets are recognised by the parties in negotiating a value. This method has limitations as similar assets may not exist, may not have been recently exchanged or information relating to these assets may not be public knowledge.

The investment method considers the present value of the benefits flowing to the owner of the asset. In this manner it accounts for the earning potential of the asset in the assessment of the future benefits and the related risks associated with this potential are considered in determining an appropriate discount or capitalisation rate. This methodology considers the very nature of an asset, by relating its present value to the future benefits controlled by the owner of the asset and the period to which these benefits relate.

OPTION PRICING MODELS

It is generally accepted that the option pricing model employed should take into account the following factors:

(a) exercise price of the option;

(b) life of the option;

(c) current price of the underlying securities;

(d) expected volatility of the share price;

(e) dividends expected on the shares; and

(f) risk free interest rate for the life of the option.

When a formula is applied to these variables, the resulting figure is called the theoretical fair value of the option. There are two main models used in pricing equity options, the binomial model and the Black Scholes model.

THE BINOMIAL OPTION PRICING MODEL

The model divides the time to an options expiry into a large number of intervals or steps. At each interval, it calculates that the stock price will move either up or down with a given probability and also by an amount calculated with reference to the stock's volatility, the time to expiry and the risk free interest rate. A binomial distribution of prices for the underlying stock is thus produced.

At expiry the option values for each possible stock price are known as they are equal to their intrinsic values. The model then works backwards through each time interval, calculating the value of the option at each step. At the point where a dividend is paid (or other capital adjustment made) the model takes this into account. The final step is at the current time and stock price where the current theoretical fair value of the option is calculated.

THE BLACK SCHOLES MODEL

The Black Scholes model was first introduced as an analytical solution to pricing a European option on a non dividend paying asset. The Black Scholes formula is a continuous time analogue of the binomial model. The Black Scholes formula uses the pricing inputs to analytically produce a theoretical fair value for an option. The model has many variations which attempt, with varying levels of accuracy, to incorporate dividends and American option exercise conditions.

VALUATION PARAMETERS

Exercise price of the option

The exercise or strike price is the agreed price at which the underlying asset will change hands if the option is exercised. Hence, it is the price for which the underlying asset can be bought (in the case of a call option) or sold (in the case of a put option) if the buyer of the option elects to exercise his or her rights.

Life of the option

The expiry date of the option (variously known as the maturity date or the exercise date) is the last day on which the option may be exercised, ie, the day on which the option expires.

Price of the underlying securities

The price of the underlying asset, in relation to the exercise price of the option, is the single most important factor in determining the value of an option. If the price of an asset is either well above or well below the exercise price, other factors will have little influence on the option value.

The weighted average share price of Dromana on 4 February 2005 was $0.31 *(Source: Bloomberg)*.

Expected volatility of the share price

The volatility of the underlying asset plays an important part in the valuation of an option. Volatility, in simple terms is a measure of the degree to which an underlying assets' market price changes during a set period of time. If a commodity moves up or down to a greater degree, it is likely that the option over this underlying asset will be more expensive, reflecting this higher volatility or risk. The option should cost more to purchase, to compensate the writer for the greater risks involved in writing that option.

The historical price volatility of shares in Dromana at 4 February 2005 was 65%

(Source: Bloomberg)

Expected dividends on the shares

An assessment is required to estimate the company's future dividend payment policy. This assessment is based on historical dividend payment patterns and any announcements by the Directors on future dividend policies. We have been advised that no dividends will be paid for at least two years. Given this advice and the absence of forecast earnings beyond that date we have assumed no dividends will be paid during the life of the options.

Risk free interest rate for the life of the option

The risk free rate of interest is the return an investor could expect to receive over the term of the option in a risk free investment such as a Government bond. In completing our valuation we have employed the Australian Government 10 year Bond rate at 4 February 2005 of 5.327%.

Value of Options at 4 February 2005

We have applied the above option pricing models and the parameters and assumptions set down to arrive at a theoretical fair value for each option of $0.17 per option. This results in a theoretical fair value of $204,000 for all of the 1,200,000 options it is proposed the company grant to the Twelfth Vilmar Lenders.

We note that there can be no certainty that this theoretical fair value could be achieved by the Company or the Twelfth Vilmar Lenders if they chose to sell the options immediately. This position reflects the normal liquidity issues associated with the sale of any asset but, we in particular, unlisted options over shares in a thinly traded company. Accordingly, for the purpose of our assessment of the Proposed Transaction, we consider a discount of 30% should be applied to this theoretical fair value to determine the likely market value of the options at the date of this report. On this basis, we consider the value of the 1,200,000 options to be $142,800.

VI. ASSESSMENT OF WHETHER THE PROPOSED TRANSACTION IS FAIR AND REASONABLE TO THE NON-ASSOCIATED SHAREHOLDERS

In assessing whether the Proposed Transaction is fair and reasonable to the non-associated shareholders, we have considered whether the proposed share option issue price is fair and reasonable to the non-associated shareholders as well as the advantages and disadvantages of the Proposed Transaction proceeding or not proceeding. In assessing whether we consider the proposed issue of 1,200,000 options for nil consideration to the Twelfth Vilmar Lenders as consideration for refinancing the Rabo facility is fair and reasonable to the non-associated shareholders, we have considered the following factors:

- The Company issued 1,000,000 options to Directors, 250,000 for each director, for services rendered in relation to the AIM listing and other matters. These options have an exercise price of $0.27 and an expiry date of 12 January 2010. The issue of these options was approved by shareholders at the Annual General Meeting on 29 November 2004. We understand that the acceptance by the Directors of these options in lieu of cash payment for their services reflected a desire to conserve the Company's cash. In this context the issue of the options to the Twelfth Vilmar Lenders is comparable as no establishment fees have been paid.

- The Company was in default of certain covenants of the Rabo facility. This default meant that the facility could be recalled at 31 December 2004. Given the Company's working capital requirements and the intention to use the AIM listing proceeds to fund these requirements, the Company needed to find an alternative source of debt finance.

- The assignment of the security to Twelfth Vilmar Pty Ltd in the form of the fixed and floating charge over the assets of Dromana, would, if approved by the Dromana Shareholders, simply result in Twelfth Vilmar Pty Ltd holding the same security interest over the same debt obligation as that previously held by Rabo.

- The terms and conditions of the replacement financing facility provided by the Twelfth Vilmar Lenders are better than the terms of the Rabo facility. Further, we understand that the Company's discussions with other financial institutions identified that comparable terms to those offered by the Twelfth Vilmar Lenders could not be obtained from these institutions.

- The Twelfth Vilmar facility does not contain a line fee and borrowings from other debt providers would have contained line fees at least equal to the 1% in the Rabo facility. A line fee of 1% would cost $13,000 per annum.

- If the options are exercised, the Company's net assets will increase by $324,000.

- The options are unlisted.
- We consider the change in the financing covenants from the Rabo facility to the Twelfth Vilmar facility is positive for shareholders.

- The Twelfth Vilmar facility may provide greater flexibility to the Company in terms of both debt and equity fundraisings. This is likely to result from the fact that the Twelfth Vilmar Lenders are substantial shareholders in the Company so their interests are not restricted to simply the provision of debt finance and maximising their return thereon, similar to other providers of debt funding.

- The value of $142,800 we have determined for the options will need to be expensed by the Company. This will reduce its reported earnings for the year ending 30 June 2005.

- The decision by Rabo to realise a loss of $100,000 when it assigned its facility to the Twelfth Vilmar Lenders indicates that Rabo had concerns about its ability to recover the full amount of the loan. This action supports the view that other lenders would probably have imposed higher fees and interest rates on Dromana if they had been prepared to advance the funds to repay Rabo. Consequently, it is reasonable to consider that Dromana, and thus the non-associated shareholders, are better off due to the replacement of the Rabo facility with the Twelfth Vilmar facility.

- The provision of the Twelfth Vilmar facility is dependent upon shareholders approving the grant of the options to the Twelfth Vilmar Lenders. We understand that if the option grant is not approved then the Twelfth Vilmar Lenders could recall their loan as the conditions subsequent to the transaction had not been met. If this were to occur then the Directors would need to revisit the financing facilities offered by other lenders, which were considered to be less attractive than that offered by the Twelfth Vilmar Lenders.

Advantages and Disadvantages of the Proposed Transaction proceeding

The advantages of the Proposed Transaction proceeding can be summarised as:

- Dromana has replaced the Rabo facility with a lower cost facility that incorporates less onerous covenants.

- The Company has not had to repay the Rabo facility so the proceeds from the AIM fundraising can be devoted to its working capital requirements. If the Rabo facility had not been replaced by the Twelfth Vilmar facility then the Company may not have been able to direct these proceeds into working capital.

- The Company may have greater flexibility in terms of raising both debt and equity finance in the future. The greater debt financing flexibility could result from the Twelfth Vilmar Lenders accepting a subordinate position to any new provider of debt funding.

The disadvantages to non-associated shareholders should the Proposed Transaction proceed can be summarised as:

  - Their shareholding in the Company will be diluted if the options are exercised. As noted above, if the Proposed options are exercised, the shares issued will represent some 3.8% of the expanded share capital.

  - Our assessed values of the options, $142,800 will need to be expensed by the Company. This will result in lower reported profits and reduce the Company's ability to pay dividends in those periods where the expense is recognised.

Advantages and Disadvantages of the Proposed Transaction proceeding

In our opinion, the only apparent advantage to the non-associated shareholders of the Proposal not proceeding is that their interest will not be diluted. However, if the Proposed Transaction does not proceed, there can be no certainty that the Twelfth Vilmar facility will continue to be available to the Company. This means that the Company will need to find a replacement source of debt funding and the terms of such a facility may well be more onerous than that of the proposed Twelfth Vilmar facility.

Conclusion

After considering all of the factors summarised above, including the advantages and disadvantages of whether the Proposed Transaction proceeds or not, on balance, we consider the Proposed Transaction is fair and reasonable to the non-associated shareholders as they should be better off if it occurs.

APPENDIX A

Dromana

Qualifications

Benson is owned by Benson Partners, a Melbourne based firm of Chartered Accountants. Benson holds an Australian Financial Services Licence under the Act and, as such, is licensed to provide advice on security related matters.

Peter Rayner, BA, MBA, CA, ASIA and Michael Cain, B Com (Hons), CA, GAICD are Directors of Benson and are responsible for the preparation of this Report. They were assisted by Phillip Rundle, B Com, FCA, GAICD. Each of them has extensive experience in the preparation of corporate valuations and the provision of corporate finance advisory services to corporations involved in takeovers, capital raisings and mergers and acquisitions.

Independence

We have considered our independence from Dromana and related parties, having regard to ASIC Practice Note 42, and we do not consider that there are any circumstances which conflict with our independence from Dromana or hinder our ability to provide objective independent advice.

Neither Benson nor the authors of this report have, at the date of this Report, or have had within the previous two years, any shareholding in or other relationship with Dromana or related parties that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the proposed transaction.

Neither Benson nor the authors of this report have any interest in the outcome of the proposed transactions. Benson is entitled to receive a fee of approximately $10,000 from Dromana based on normal professional hourly rates for the time taken in respect of the preparation of this report. The fee will be paid regardless of whether or not the Proposed Transaction is approved by the members.

Indemnity

The terms of Benson's appointment include a provision that Dromana will indemnify Benson, its employees, officers and agents against any claim, liability, loss or expense, cost or damage and liabilities arising out of reliance on any information or documentation provided by Dromana which is false or misleading or incomplete.

Consent

Benson has consented in writing to this Report in the form and context in which it appears being included in the Explanatory Memorandum which will be issued by the directors of Dromana and which will be distributed to Dromana members.

Neither the whole or any part of this Report nor any reference to it may be included in or with or attached to any other document, circular, resolution, letter or statement without the prior consent of Benson as to the form and context in which it appears.

APPENDIX B

Dromana

Sources of Information relied upon in this Report

In preparing this report and arriving at our opinion, we have considered, amongst others, the following sources of information:

- ASX Announcements
- Dromana Company website, http://www.dromanaestate.com.au
- Dromana's 2004 audited annual reports;
- Dromana's Management Accounts to 31 December 2004;
- Historical share price and liquidity data from Bloomberg in relation to Dromana;
- Company background information provided by officers of Dromana;
- A draft copy of the Explanatory Memorandum to shareholders explaining the proposed transaction; and
- A draft Notice of Meeting to be sent to shareholders in respect of the proposed transaction.

DROMANA ESTATE LIMITED

ABN 58 090 000 278
Registered Office: Level 9, 406 Collins Street, Melbourne, 3000
Phone: 61 3 9600 3242 Facsimile: 61 3 9600 3245

NOTICE OF MEETING AND EXPLANATORY MEMORANDUM INCLUDING INDEPENDENT EXPERT'S REPORT

NOTICE OF MEETING

Notice is hereby given that a General Meeting of Dromana Estate Limited ("Dromana") will be held at Level 9, 406 Collins Street, Melbourne, 3000, Australia, on Tuesday March 15 2005 at 10.00am (Melbourne time).

SPECIAL BUSINESS

Item 1 **Approval to Assign Fixed and Floating Charge**

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"That for the purpose of Listing Rule 10.1 of Australian Stock Exchange Limited ("ASX") approval is given to the assignment of the fixed and floating charge (ASIC charge number 912981) dated 30 December 2002, currently in favour of Rabo Australia Limited, to Twelfth Vilmar Pty Limited, on the terms set out in the Explanatory Memorandum which accompanies, and forms part of, this Notice of Meeting."

Item 2 **Approval to Variation of Facility Agreement.**

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"That approval is given to the variation of the Facility Agreement dated 30 December 2002 made between the Company and Rabo Australia Limited (and subsequently assigned to Twelfth Vilmar Pty Ltd) in the manner and on the terms set out in the Explanatory Memorandum which accompanies, and forms part of, this Notice of Meeting."

Item 3 **Approval to Issue Options to Directors for the purpose of Listing Rule 10.11**

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"That for the purpose of ASX Listing Rule 10.11, approval is given to the issue of 400,000 options to each of Twelfth Vilmar Pty Ltd, Harvard Nominees Pty Ltd and to Paribas Pty Ltd on the terms set out in the Explanatory Memorandum which accompanies, and forms part of, this Notice of Meeting."

Item 4 **Approval to ratify issue of 3,000,000 ordinary shares**

To consider, and if thought fit, pass the following resolution as an ordinary resolution:

"That for the purposes of ASX Listing Rule 7.4 subsequent approval is given to the issue of 3,000,000 ordinary shares in the capital of the Company made at the issue price of $0.22 per share on the terms set out in the Explanatory Memorandum, which accompanies and forms part of this Notice of Meeting."

Item 5 **Approval to ratify issue of 600,000 options**

To consider, and if thought fit, pass the following as an ordinary resolution:

"That for the purposes of ASX Listing Rule 7.4, subsequent approval is given to the issue to Hoodless Brennan & Partners plc of 600,000 options exercisable on or before January 12, 2010 at an exercise price of 27cents per share."

Voting Exclusion Statement

Dromana will disregard any votes cast on Resolutions 1, 2 and 3 by:

- Twelfth Vilmar Pty Ltd, or an "associate" of Twelfth Vilmar Pty Ltd (as that term is defined in section 11 and 13 to 17 of the Corporations Act);

- Harvard Nominees Pty Ltd, or an "associate" of Harvard Nominees Pty Ltd (as that term is defined in section 11 and 13 to 17 of the Corporations Act); and

- Paribas Pty Ltd, or any "associate" of Paribas Pty Ltd (as that term is defined in sections 11 and 13 to 17 of the Corporations Act);

- Richard Green or his wife, Isabella Green, or an "associate" of either Richard Green or Isabella Green (as that term is defined in section 11 and 13 to 17 of the Corporations Act).

Dromana will disregard any votes cast on Resolution 4 and 5 by:

- Hoodless Brennan & Partners plc; or

- Any associate (as defined above) of Hoodless Brennan & Partners plc

Exception to Voting Exclusion Statement

Dromana need not disregard a vote in accordance with the above voting exclusion statement if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions of the proxy form; or

- it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By Order of the Board

Chris Ritchie
Company Secretary
February 15, 2005

NOTES

1. Voting Entitlements

In accordance with Regulation 7.11.37 of the Corporations Regulations 2001, all Dromana shares will be taken, for the purposes of this General Meeting, to be held by the persons who hold them at 10.00 am on Sunday 13 March 2005. Only those persons will be entitled to vote at the General Meeting on Tuesday 15 March 2005.

2. Proxies

(a) A member of Dromana has the right to appoint a proxy. A proxy need not be a member of Dromana.

(b) A member is entitled to appoint not more than two proxies to attend and vote on behalf of such member.

(c) A member entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the proportion or number of votes that each proxy may exercise is not specified then each proxy may exercise half of the votes (any fractions will be disregarded).

(d) A proxy document or form is valid if it is signed by the member of Dromana making the appointment and contains the member's address, Dromana's name, the proxy's name or the name of the office held by the proxy and the meeting at which the appointment may be used and is received in accordance with notes (e) and (f) below.

(e) For the appointment of a proxy, the proxy form enclosed with this Notice of Meeting and Explanatory Memorandum may be used. In order for the appointment of a proxy to be valid, the proxy form must be received no later than 10.00 am on Sunday 13 March 2005. If the proxy form is signed by the appointor's attorney, the authority (or certified copy of the authority) under which the appointment was signed must be received no later than 10.00am on Sunday 13 March 2005.

(f) Duly signed proxy forms (and, if applicable, authorities) must be received by Dromana either:

at the Registered Office of Dromana:
Level 9, 406 Collins Street, Melbourne, 3000; or

at Dromana's share registry:
Computershare Investor Services Pty Limited,
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067; or

by facsimile at either of the following fax numbers:
61 3 9600 3245 (Dromana); or
61 3 9473 2555 (Computershare Investor Services Pty Limited).

(g) In the case of joint holders of shares any one of such persons may vote at any meeting as if he were solely entitled thereto, but if more than one of such joint holders tenders a vote the vote of the senior who tenders a vote whether in person or by proxy or by attorney or howsoever shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

(h) If a member is a corporation and wishes to appoint a proxy, the proxy form must be executed under its common seal or, in the absence of a common seal, must be signed by:

- two directors of the corporation; or
- a director and a company secretary of the corporation; or
- if the corporation is a proprietary company that has a sole director who is also the sole company secretary – that director; or
- the corporation's appointed attorney under the power of attorney.

(i) If a representative of the corporation is to attend the General Meeting, the appropriate "Certificate of Appointment of Representative" should be produced prior to admission. A form of the certificate may be obtained from the Dromana share registry.

DROMANA ESTATE LIMITED

ABN 58 090 000 276
Registered Office: Level 9, 406 Collins Street, Melbourne, Victoria, 3000
Phone: +61 3 9600 3242 Facsimile: +61 3 9600 3245

PROXY FORM – GENERAL MEETING

Security Holder

Security Holder Reference Number

I/We, being a member of Dromana Estate Limited and entitled to attend and vote, appoint:

Proxy Name ……………………………………….. Proxy Address …………………………………………….

or failing that person or if no other appointee is named, the chairperson of the meeting as my/our proxy to vote for me/us on my/our behalf at the General Meeting of the Company to be held at Dromana Estate Limited, Level 9, 406 Collins Street Melbourne on Tuesday 15th March 2005 at 10.00am and any adjournment of that meeting.

VOTING INSTRUCTIONS TO PROXY
If you wish to direct your proxy how to vote please place a tick in the appropriate box below.

In the absence of specific instructions your proxy will be entitled to vote as your proxy thinks fit, or abstain from voting.

If the Chairman of the Meeting is your nominated proxy, or may be appointed by default and you have not directed your proxy how to vote on Items 1 to 4 below, please place a mark in this box. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of those items and that votes cast by him, other than as proxy holder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote the Chairman of the meeting will not cast your votes on Items 1 to 5 your votes will not be counted in computing the required majority if a poll is called on these items. The Chairman of the Meeting intends to vote undirected proxies in favour of each of these items.

		For	Against	Abstain
Item 1.	Approval to Assign Fixed and Floating Charge			
Item 2.	Approval to variation of Facility Agreement			
Item 3.	Approval to Issue Options to Directors for the purpose of Listing Rule 10.11			
Item 4.	Approval to ratify issue of 3,000,000 ordinary shares			
Item 5.	Approval to ratify issue of 600,000 options			

Signature of Security holder/s (signing instructions – see overleaf)		Companies only Executed in accordance with the Company's Constitution	
Signature	Date	Director / Sole Director & Sole Secretary	
Signature	Date	Director / Secretary	Date

Common Seal

Please advise a daytime telephone number where we may reach you if we have any queries with this form. ____________________

Note on completion of Proxy Form:

(1) A member entitled to attend and vote at a meeting of the Company is entitled to appoint a person as the member's proxy to attend and vote for the member at the meeting.

A member entitled to cast two or more votes at the meeting may appoint two proxies. An appointment of more that one proxy is valid only if a separate proxy form is used to appoint each proxy. The appointment may specify the proportion or number of votes that each proxy may exercise. If the member appoints two proxies and the appointment does not specify the proportion or number of the member's votes each proxy may exercise half of the votes. Additional proxy forms are obtainable from the registered office of the company.

(2) The instrument appointing a proxy must be signed by the Appointer or by an Attorney duly authorised in writing, or, if the Appointer is a corporation, executed in accordance with the Corporations' Constituent documents or as authorised by the Corporations Law.

(3) A proxy need not be a member of the Company.

(4) In the case of joint holders the proxy form may be signed by any one holder.

(5) If signing for a corporation as a Sole Director/Secretary, please ensure "Director" and "Director / Secretary" are crossed out.

(6) Duly signed proxy forms (and, if applicable, authorities) must be received by Dromana either:

At the Registered Office at Level 9 406 Collins Street Melbourne 3000 or at Dromana's share registry, Computershare Investor Services Pty Ltd 452 Johnston Street, Abbotsford 3067.

Or by facsimile at either of the following fax numbers:

03 9600 3245 (Dromana); or
03 9473 2555 (Computershare)

EXPLANATORY MEMORANDUM FOR THE GENERAL MEETING TO BE HELD ON TUESDAY MARCH 15, 2005.

This Explanatory Memorandum provides information on the Resolutions to be considered at Dromana's General Meeting on Tuesday March 15, 2005. The Resolutions relate to:

(a) the assignment by Rabo Australia Limited ("Rabo"), previously Dromana's principal financier, to Twelfth Vilmar Pty Ltd ("Twelfth Vilmar"), a private investment company controlled by Geoff Bell, a director of Dromana, of the fixed and floating charge which constitutes the security given under the facility agreement between Dromana and Rabo under which Rabo had advanced $1.3 million to Dromana.

(b) the variation of the facility agreement.

(c) the issue of options; and

(d) the ratification of a share placement made by the Directors

(e) the ratification of the issue of options made by the Directors

To assist in providing Dromana's shareholders with all material information to make an informed assessment as to how to vote on Resolution 1 contained in the Notice of Meeting, the Directors, as required by the Listing Rules of ASX, have commissioned an Independent Expert's Report. A copy of that Report accompanies this Explanatory Memorandum.

The Independent Expert, Benson Partners has concluded that on balance the proposed transaction to the non-associated shareholders of Dromana is fair and reasonable. Your Directors encourage you to carefully consider the information in this Explanatory Memorandum and the attached Independent Expert's Report in full before deciding how to vote on Resolution 1.

Resolution 1: Approval to Assign Fixed and Floating Charge

On 14 January 2005, Dromana announced to the ASX that Rabo had assigned to Twelfth Vilmar the facility agreement between Dromana and Rabo. Pursuant to the facility agreement, Rabo had advanced $1.3 million to the Company and, in return, the Company granted a fixed and floating charge over the assets of the Company to Rabo as security for the advance. As consideration for the assignment, Twelfth Vilmar paid Rabo $1.2 million.

As disclosed in the Company's 2004 Annual Report, during the 2004 financial year the Company wrote down the value of its intangible assets, including brand names, trade marks and goodwill, by $3.6 million. These write-downs, although dictated by prudent financial reporting, were inconsistent with covenants relating to debt and asset ratios contained in the facility agreement between Dromana and Rabo. Ongoing discussions with Rabo were unable to reach a compromise in relation to those covenants and, as a result, Twelfth Vilmar, a company controlled by Geoff Bell, a director of Dromana, entered into a deed of assignment with Rabo to take an assignment of the debt owed by Dromana.

In addition, Twelfth Vilmar has entered into an agreement with Richard Green and his wife and Harvard Nominees Pty Ltd, a company associated with David Craig, whereby Twelfth Vilmar will hold the debt assigned to it, and the fixed and floating charge if such assignment is approved by Dromana's shareholders, on behalf of itself, Harvard Nominees Pty Ltd and Richard Green and his wife, in equal shares. Richard Green and David Craig are both also directors of Dromana.

The net effect of the above transactions is that the debt previously owed by Dromana to Rabo is now owed by Dromana to entities associated with Geoff Bell and David Craig and to Richard Green and his wife personally. Whilst the debt obligations of Dromana have already been assigned, an assignment of the charge over the assets of Dromana as security for the debt facility to Twelfth Vilmar is, pursuant to the ASX Listing Rules, a "disposal" of the assets of Dromana to related parties and, as such, requires shareholder approval. Accordingly, this Resolution seeks shareholder approval for the assignment of the fixed and floating charge over Dromana's assets which secures the debt owing under the facility agreement.

It is important to note that any assignment of security to Twelfth Vilmar, in the form of the fixed and floating charge over the assets of Dromana, would, if approved by the Dromana shareholders, simply result in Twelfth Vilmar holding the same security interest over the same debt obligation as that previously held by Rabo.

Resolution 2: Variation of Facility Agreement

As discussed above, the writedowns by Dromana in the 2004 financial year were inconsistent with various covenants in the facility agreement between Dromana and Rabo.

To ensure that this anomaly is not perpetuated, Twelfth Vilmar has agreed, in consideration of the grant to itself, Harvard Nominees Pty Ltd and Paribas Pty Ltd of 1,200,000 options in aggregate in accordance with Resolution 3, to vary the facility agreement to remove the covenants in question.

The covenants require Dromana to maintain:

(a) an equity ratio of 60% and $5,660,000, where equity means shareholder funds divided by total tangible assets; and

(b) a debt service cover ratio at a minimum of 1.3 times, where the ratio is calculated by dividing earnings before interest, tax, depreciation and leasing and hire purchase costs by total finance costs (being interest plus principal repayments plus leasing and hire purchase payments plus dividends)

The removal of these covenants will give Dromana greater flexibility in its financing arrangements, but will increase the commercial risk to Twelfth Vilmar.

Twelfth Vilmar has also agreed to delete from the facility agreement a clause which currently obliges Dromana to pay a line fee of 1% per annum on the facility limit of $1,300,000. The removal of this obligation will save Dromana $13,000 per annum.

The terms of the facility agreement, apart from some minor, technical amendments, will otherwise remain substantially unchanged.

Resolution 3: Issue of Options

Twelfth Vilmar Pty Ltd has agreed to the variation of the facility agreement the subject of Resolution 2 in consideration of the issue of 400,000 options to Twelfth Vilmar Pty Ltd, 400,000 options to Harvard Nominees Pty Ltd and 400,000 options to Paribas Pty Ltd, a company associated with Richard Green, on the terms and conditions set out below.

The options will compensate Twelfth Vilmar, Harvard Nominees and Paribas for the greater risk to which they will be exposed as a result of removing from the facility agreement the covenants which require Dromana to maintain the equity ratio and debt service cover ratio outlined above, and for agreeing to forego the line fee of 1% of the facility amount per annum.

If all the options are exercised, Dromana will receive $324,000 in additional working capital.

Listing Rule 10.11 prohibits the issue of securities to related parties of a listed company (which for Dromana includes Twelfth Vilmar Pty Ltd, Harvard Nominees Pty Ltd and Paribas Pty Ltd) except in certain circumstances (none of which apply in this case) without the approval of ordinary shareholders.

The maximum number of options to be issued is 1,200,000.

The options will be issued at no cost, and will have an exercise price of 27 cents (being the average price of the shares issued under the AIM placement referred to in the Explanatory Note to resolution 4) at any time before January 14 2009. The Company will not make any loan to Twelfth Vilmar Pty Ltd, Harvard Nominees Pty Ltd or Paribas Pty Ltd to finance the exercise of the options.

The options will be issued no more than 1 month after the date of the meeting. No funds will be raised from the issue of the options.

The options will be issued at the exercise price and with the expiry date specified above, and will otherwise be issued on the following terms:

- each option will entitle the holder to subscribe for one ordinary fully paid share in the Company;

- the options my be exercised in whole or in part;

- the date of exercise of an option will be the date on which notice of exercise of the option is received at the Company's share register;

- shares issued on the exercise of options will be issued on the same terms and conditions, and will rank equally with, the ordinary shares of the Company;

- the options will not be listed on ASX, and will not be transferable;

- the Company will apply to ASX for official quotation of shares issued on the exercise of options within 3 business days of their allotment;

- in the event of any reorganisation of the Company's capital, the rights of the option holder will be changed to the extent necessary to comply with the listing rules of ASX applying to a reorganisation of capital at the time of the reorganisation; and

- the options will not allow Twelfth Vilmar Pty Ltd, Harvard Nominees Pty Ltd or Paribas Pty Ltd to participate in any new pro rata issues which are extended to shareholders without exercising the options.

Resolution 4: Ratify Issue of Shares

At the Annual General Meeting in November 2004, shareholders approved the issue of up to 5,000,000 ordinary shares at an issue price equal to the average market price of the Company's ordinary shares on ASX on the 5 trading days before the issue was made.

The issue of these shares was intended to raise additional working capital, and also to enhance Dromana's listing on the London Stock Exchange AIM Market by providing a pool of shares immediately tradeable on AIM by United Kingdom shareholders of up to $1,500,000.

However, in order to conclude the placing of the ordinary shares, it proved necessary to offer shares at a discount to the 5 day average traded price of the shares on the ASX.

To achieve the AIM Listing, it became necessary for the directors to utilize their placing ability to issue 3,000,000 ordinary shares at 22 cents (9 pence), and to issue only 2,545,454 ordinary shares at 32 cents (13 pence) in accordance with the approval previously given by shareholders.

The 3,000,000 ordinary shares issued by the directors resulted in a total of 5,545,454 ordinary shares issued at an average price of 27 cents (11 pence) which was the final agreed placement price.

Rule 7.1 of the Australian Stock Exchange Listing Rules prohibits a company from issuing more than 15% of its ordinary equity in any 12 month period without shareholder approval, except in certain specified circumstances. As a result of the AIM listing, Dromana has issued other than with shareholder approval, 3,000,000 securities that represent 11% of Dromana's ordinary capital.

This issue would, under Listing Rule 7.1, operate to reduce Dromana's ability to issue further equity securities in the 12 month period from the date of issue. However, Listing Rule 7.4 provides that an issue of securities made without prior approval of shareholders will be treated as having been made with their prior approval (and so not restrict the Company's ability to issue further shares under Listing Rule 7.1) if shareholders subsequently approve the issue.

The number of securities for which subsequent approval is sought is:

- 3,000,000 ordinary fully paid shares

- The shares were issued at a price of 22 cents per share

- The shares were issued to Hoodless Brennan & Partners Plc

- The shares rank equally with all other ordinary shares on issue in Dromana, save that they will rank for dividends pro rata from the date of allotment

- The shares were issued as part of a private placement to raise working capital and raised $660,000

Resolution 5: Ratify Issue of Options

At the Annual General Meeting, shareholders also approved the issue of up to 600,000 options to Hoodless Brennan & Partners as part of its fee for the placement of shares to raise the $1,468,788 referred to in the Explanatory Notes for Resolution 4.

Shareholders approved that issue of options on the understanding that the exercise price of the options would be equal to the price at which shares were to placed under the placement, which is, as explained above, at that time was intended to be the average market price of Dromana's ordinary shares on ASX on the 5 trading days before the placement was made.

As also explained above, in order to achieve the placement, it was necessary to issue some shares under the approval given by shareholders at the Annual General Meeting, and some under the general placing power of the Directors, with the result that the shares were placed at an average price of 27 cents per share.

In accordance with the general principle that the exercise price of the options to be issued to Hoodless Brennan & Partners plc was to be equal to the price at which shares were issued under the placement, the options were issued with an exercise price of 27 cents.

However, while the exercise price of the options is consistent with the general principle, shareholders approved the issue of the options at the Annual General Meeting in the expectation of a different method of calculating the exercise price, and your Directors therefore feel that the issue of the options should be put to shareholders for their consideration and ratification.

The options were issued at an exercise price of 27 cents and have an expiry date of January 12, 2010, but were otherwise issued on the terms set out in the Schedule to the Notice of, and approved by shareholders at, the Annual General Meeting. Those terms being:

- The options will be issued within 3 months of the date of the Annual General Meeting
- Each option will entitle the holder to subscribe for one ordinary fully paid share in the company;
- The options may be exercised in whole or in part;
- The date of exercise of an option will be the date on which notice of exercise of the option is received at the Company's share register;
- Shares issued on the exercise of options will be issued on the same terms and conditions, and will rank equally with, the ordinary shares of the company;
- The options will not be listed on ASX, and will not be transferable;
- The Company will apply to ASX for official quotation of shares issued on the exercise of options within 3 business days of their allotment;
- In the event of any reorganization of the company's capital, the rights of the option holder will be changed to the extent necessary to comply with the listing rules of ASX applying to a reorganization of capital at the time of the reorganization; and
- Options will no allow the holder to participate in any new pro rate issued which are extended to shareholders without exercising the option.