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TOP SHELF

# 2021 Annual Report

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Top Shelf International Holdings Ltd  
ACN 164 175 535





NED is the  
nation's fastest-  
growing whisky  
in both bottled  
and in ready-to-  
drink formats.



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## FY21 Key highlights

### Pro Forma Revenue

# \$20m

+160% on pcp  
Delivered on prospectus forecast

### Whisky Price/Litre

# \$71.4

+23% on H1 FY21<sup>1</sup>

### Gross Margin

# 23.9%

21.6% to 25.2% HOH  
+1.1% ahead of prospectus forecast

### EBITDA

# -\$6.1m

Ahead of prospectus forecast

### Brand

# #1

NED Fastest Growing Whisky<sup>3</sup>  
Grainshaker Fastest Growing Australian Vodka<sup>4</sup>

### NSV Maturing Spirits

# \$272m

at end FY21<sup>1</sup>  
+521% pcp

### Available Funding

# \$18.4m

Cash reserves \$9.5m plus extension  
of borrowing base \$8.9m<sup>2</sup>

### Capability

# \$68.9m

Tangible Assets, Our People, Operating Model

1. TSX ASX Announcement Net Sales Value of Maturing Spirit July 2021.

2. Top Shelf executed a credit approved term sheet with Longreach Credit in August 2021 to extend the existing facility limit to \$25m. The term sheet specifies a number of conditions precedent inclusive of the satisfactory insurance coverage of the Eden Lassie agave farm and other conditions considered common for a transaction of this nature.

3. IRI AU Liquor (CLG and ALM ww), Dollars Growth vs. pcp, MAT to 25/07/21.

4. Management estimate based on comparison between Australian Vodka brands sales data IRI\$ Growth vs. pcp, MAT 29/7/21 and TSI net revenue data.

## Our ambition

**Australia's premier premium multi-branded spirits company renowned for its product quality, innovation and commitment to sustainability.**

### TSI Purpose

Promote, celebrate and enjoy our distinctive Aussie way of life.

### Our Core

High quality, authentic Australian spirit brands that embody an unmistakably Aussie taste, attitude and social experience.



### Growth Levers



### 5-Year Ambition





# Executive Chairman & CEO message



Adem Karafili  
Executive Chairman



Drew Fairchild  
Chief Executive Officer

Dear Shareholders,

**It gives us enormous pleasure to share with you the FY21 Financial Results of Top Shelf International Holdings Ltd (TSI).**

**TSI is Australia's largest and fastest-growing premium spirits company, and one of the fastest growing companies in Australia across any industry. Management and the board were acutely focused on strategy execution and driving operational excellence throughout the reporting period.**

The results in the following pages underline this focus, highlighted by another year of significant growth during our first year as an ASX-listed company, including delivery against IPO prospectus forecasts including revenue, margin and EBITDA.

We continued to prioritise an investment in growth in FY21, building our asset base, our spirits inventory and our people to provide the platform for further acceleration in the coming period.

Our ambition over the next five years is to not only cement our position in the domestic market but to become an Australian company with a reputation for product quality, innovation and digital excellence.

Critically throughout the course of FY21 we have built the capability of the TSI team to deliver on our five-year ambitions. The appointment of ex-Moët Hennessey Louis Vuitton (LVMH) senior executive Trent Fraser as President to lead our Agave and International expansion headlines a number of key executive hires across the company.

We are in the right place at the right time to maximise the tailwinds that delivered massive growth in the Australian spirits market over the last 12 months.

The opportunity is ahead of us however.

Only 8 per cent of spirits consumed in Australia are produced here, compared to approximately 80 per cent for beer and 75 per cent for wine. This imbalance is driving our ambition to take a leadership role in the Australian spirits industry and accelerate the growth of our brands.

NED and Grainshaker are continuing to establish themselves as spirits of quality and relevance, and continue to cut through in a competitive market.

NED is the nation's fastest-growing whisky in both bottled and in ready-to-drink formats. Access to increased inventory in late FY22 will provide further opportunity to accelerate penetration, especially in the on-premise trade.

Grainshaker's growth in its first 10 months has set the brand up to become Australia's vodka of choice.

Both brands have been recognised at various spirits competitions throughout 2021, highlighted by a Gold for Grainshaker Wheat at the 2021 Melbourne International Spirits Competition.

We have been working and will continue to work on systematically expanding our distribution channels for whisky and vodka, building our portfolios and activating our brands in FY21. Our results reflect the catalysts that we are confident will continue to further in FY22.



This distribution expansion also includes executing the opening phase of our international strategy. Throughout 2021 we took the first steps in China. TSI is the first spirits company to have Australian whisky and Australian vodka on Alibaba's Global Discovery Mall, and along with our strategic growth partners, we are continuing to pursue international expansion and take our portfolio of authentically-Australian premium spirit brands to the world.

The evolution and premiumisation of the product portfolio of each brand is an exciting next step which will become fully realised in the latter half of FY22.

As we mark an outstanding first year as an ASX-listed company, our successful \$35 million capital raise in October 2021 puts us in a perfect position to accelerate growth through the scaling our brands to take advantage of market opportunities.

The capital raise will be used to aggressively scale NED and Grainshaker, and deliver Australia's first integrated Agave distillery and production facility in north Queensland.

The interest in the company's Australian Agave Project provides tremendous confidence in this opportunity. Agave spirit continues to be one of the hottest growth

categories across the world and we are extremely positive in the opportunity to create the new era of Agave to showcase to the world what agave is capable of. A truly regional, expressive and distinctive profile that exemplifies the very best of Australian terroir.

Operations at our agave spirit farm and distillery will be at the vanguard of our ambitions for the delivery of an integrated, company-wide Environmental, Social and Governance (ESG) strategy.

While we have already recorded significant ESG achievements, including an increase of diversity across the company, inclusion, and safety and resource efficiency, putting a framework around these initiatives will ensure company-wide integration as we move into the next phase of growth.

Our capital raise will also support us in building best-in-class digital and data technologies, including direct to consumer channels, and to increase efficiencies and utilisation through investments in supply chain and warehousing solutions.

The capacity of our distillery and production facility at Campbellfield provides not a valuable revenue stream through contracts with third-party packaging partners, but it also allows us to innovate

and adapt to meet the changing needs of our consumers and consumers.

As Australia opens up post-COVID-19, we expect further acceleration of growth for both NED and Grainshaker in the on-premise and events segments of the market, as well as through key partnerships that will place each brand at the centre of consumers' social occasions.

Our shareholders can take great confidence from our record of delivery and investment in growth required to underpin in the company's the future.

We thank you for your continued support.

Sincerely,

A stylized, handwritten signature in black ink, likely belonging to Adem Karafili.

**Adem Karafili**  
Executive Chairman

A stylized, handwritten signature in black ink, likely belonging to Drew Fairchild.

**Drew Fairchild**  
Chief Executive Officer

# Directors' report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'Top Shelf') consisting of Top Shelf International Holdings Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

## Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Adem Karafili – Executive Chairman

Drew Fairchild – Chief Executive Officer

Peter Cudlipp

Michael East (appointed effective 15 September 2020)

Ken Poutakidis

Bruce Peterson (resigned effective 23 July 2020)

## Review of operations

Top Shelf is a Melbourne based distiller and marketer of premium Australian spirits, with distinctive brands in NED Australian Whisky and Grainshaker Hand Made Australian Vodka. The Group has a track record of success creating high quality, premium Australian products and brands; each in its own way encapsulating a distinctive Aussie attitude, social experience and flavour profile.

The Group has expertise in the development and production of distilled spirits, undertakes a significant level of research and development and operates modern fermentation, distillation and packaging facilities in Campbellfield, Victoria.

The Group is creating Australia's first agave spirit range and is developing an agave farm in The Whitsundays region of Queensland specifically chosen for the suitability of its climate for growing blue agave. In development of the farm the Group has committed to the application of up-to-date and innovative horticultural practices.

In addition to distilling and manufacturing its own portfolio of spirit brands, Top Shelf also provides canning, bottling and packaging services to a range of customers.

## Admission to the Australian Securities Exchange ('ASX')

The Company completed an Initial Public Offering ('IPO') and was admitted to the ASX on 9 December 2020. \$47.2 million was raised in December 2020 from the issue of 42.6 million new shares, of which \$12.2 million was paid to selling shareholders. The cash raised by the Group of \$35.0 million has been partially used to fund the Company's growth strategy, including investment in new make whisky, agave plants, sales and marketing, product development and operations.

## Principal activities

During the financial year the principal activities of the Group have included:

the production and marketing of NED Australian Whisky and Grainshaker Hand Made Vodka beverages, with the Grainshaker brand launched in October 2020;

- the continued investment in whisky production for maturation;
- the provision of contract packaging services to a portfolio of major beverage and craft customers; and
- development of an Australian agave farm in The Whitsundays region of Queensland with the ambition of becoming Australia's first producer of an agave spirit range.



## Financial results

### *Revenue and gross margin*

In FY21, the Group reported revenue of \$19.2 million reflecting an increase of 150% on the prior comparative year.

Revenue growth in FY21 reflected branded product growth of \$8.6 million or 212% to \$12.7 million and contract packaging service revenue growth of \$2.9 million or 80% to \$6.5 million.

The branded product revenue growth reflected:

- the increasing scale of Top Shelf's whisky maturation capability and quality enabling the sales expansion of the NED Whisky product range and complementary introduction of super premium product offerings;
- the national retail ranging of NED Whisky bottle and Ready To Serve (RTS) products with Independent Brands Australia (IBA), consisting of Cellarbrations, Bottle O and IGA liquor outlets, from September 2020; and
- the brand launch of Grainshaker Vodka in October 2020 and strong subsequent on-premise demand.

The contract packaging service revenue growth reflected the annualised performance of contract packaging services provided to major beverage and craft customers after commissioning of the Group's canning and bottling capabilities in October 2019.

The Group recognised gross margin growth of 159% to \$4.7 million with gross margin as a percentage of revenue increasing from 23.5% to 24.4%. The Group's gross margin increased from 21.6% in the first half of FY21 to 26.0% in the second half resulting from the introduction of new products and channel mix inclusive of the commencement of international sales of branded product to China supported by relationships established with locally based Chinese buyers.

### *Statutory and pro forma results*

On a statutory basis, the Group reported an EBITDA in FY21 of \$(10.3 million), an increased loss of \$6.0 million and a loss after income tax of \$10.7 million, an increased loss of \$5.9 million on the prior comparative year.

The pro forma financial results have been calculated to exclude IPO transaction costs, additional costs incurred by the Company in preparation for the IPO, share based payments expense as a non-cash cost, and a cessation fee incurred upon the early termination of a financing facility with Longreach Credit net of tax where appropriate. The pro forma financial results include the fair value gain of biological assets of \$5.6 million and income tax benefit of \$3.1 million.

On a pro forma basis, the Group reported an EBITDA in FY21 of \$(6.2 million), representing an increased loss of 46% or \$2.0 million, and a loss after income tax of \$6.5 million, an increased loss of 34.3% or \$1.7 million on the prior comparative year.

The FY21 pro forma financial results reflect:

- reported brand product revenue of \$12.7 million and contract packaging service revenue of \$6.5 million, and Group gross margin performance of 24.4%;
- the fair value uplift of the Group's agave plant biological assets of \$5.6 million;
- research and development (R&D) income of \$0.5 million in relation to the Group's ongoing whisky and agave (R&D) programs (in addition R&D income of \$0.7 million has been recognised in FY21 as an offset against the applicable balance sheet account relating to the R&D expenditure);
- sales and marketing expenditure of \$6.2 million as the Group invested in its NED Whisky and Grainshaker Vodka brands in support of NED Whisky's IBA national ranging that commenced in September 2020 and the brand launch of Grainshaker Vodka in October 2020; and
- ongoing investment in the people capabilities and infrastructure of the Group required to achieve Top Shelf's long term strategic growth objectives.

## Directors' report (continued)

### Financial position

At 30 June 2021, the Group reported a net tangible asset position of \$34.5 million (net assets excluding intangible and deferred tax assets) with a cash balance of \$9.5 million.

The Group executed a secured financing facility agreement with Longreach Credit in December 2020, which was fully drawn to \$15.0 million by 30 June 2021. On 26 August 2021, the Company executed a credit approved term sheet with Longreach Credit extending the secured financing facility agreement limit to \$25.0 million.

During the year ended 30 June 2021, the Group's IPO and Longreach Credit secured financing facility enabled Top Shelf to invest in its strategic growth objectives. This is reflected in the financial position of the Group at 30 June 2021 relative to the prior comparative date with:

- inventories at cost (substantially new make whisky spirit) increasing by \$4.1 million or 124% to \$7.4 million. At 30 June 2021, the net sales value of the Group's maturing whisky was \$111 million;
- property, plant and equipment and right-of-use assets increasing by \$4.9 million or 17% to \$33.6 million; and
- biological assets increasing by \$6.9 million to \$7.7 million. At 30 June 2021, the net sales value of the Group's maturing agave was \$161 million.

### Non-IFRS financial information

The Directors use certain measures to manage and report on Top Shelf that are not recognised under Australian Accounting Standards (AAS) or International Financial Reporting Standards (IFRS). These measures are collectively referred to as non-IFRS financial measures under Regulatory Guide 230 Disclosing non-IFRS financial information published by ASIC. These non-IFRS financial measures do not have a prescribed meaning or standard definition under AAS or IFRS. The non-IFRS measures should not be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS.

The principal non-IFRS financial measure that is referred to in this Directors' Report is EBITDA, which represents earnings or losses before net finance costs, income tax, depreciation and amortisation. The directors consider the additional information of EBITDA is relevant and useful in measuring the financial performance of the Group. Other non-IFRS measures referred to in this Directors' Report include the pro forma financial results.

The following table summarises key reconciling items between statutory loss after tax attributable to the Company and EBITDA:

	Year ended 30 June 2021 (\$'000)	Year ended 30 June 2020 (\$'000)
Loss after tax	(10,739)	(4,831)
Income tax benefit	(3,147)	(1,855)
Finance costs	2,790	2,006
Earnings before interest and taxation (EBIT)	(11,096)	(4,680)
Depreciation and amortisation	778	396
<b>Earnings before interest, taxation and depreciation and amortisation (EBITDA)</b>	<b>(10,318)</b>	<b>(4,284)</b>

Pro forma financial results referred to in this Directors' Report have been calculated to exclude certain items described below but includes the fair value gain of biological assets of \$5.6 million and income tax benefit of \$3.1 million. This has been done to more clearly represent the underlying financial results (noting that this financial information has not been prepared in accordance with AAS or reviewed in accordance with Australian Auditing Standards).

The adjustments applied to the statutory financial results to derive the pro forma financial results reflect the exclusion of:

- (1) Initial public offering (IPO) transaction costs including joint lead manager and other adviser fees.
- (2) Accounting and audit fees associated with the historical audit of the Company's 30 June 2018, 2019 and 2020 annual accounts in preparation for the Company's IPO.
- (3) Share based payments expense, as a non-cash cost, incurred in relation to the Company's initial option plan that commenced in October 2020 (as summarised in note 37 to this financial report) and ordinary shares issued to select directors at nil cash consideration prior to the IPO.
- (4) A cessation fee in relation to the early termination of a financing facility arrangement with Longreach Credit in December 2020.
- (5) The income tax effect of adjustments 1, 2 and 4 summarised above.

The following table reconciles the statutory results to the pro forma results for the year ended 30 June 2021 and previous corresponding year ended 30 June 2020:

	Year ended 30 June 2021		Year ended 30 June 2020	
	EBITDA (\$'000)	Loss after tax (\$'000)	EBITDA (\$'000)	Loss after tax (\$'000)
<b>Statutory</b>	<b>(10,318)</b>	<b>(10,739)</b>	<b>(4,284)</b>	<b>(4,831)</b>
IPO transaction costs	1,418	1,418	–	–
Other costs associated with IPO preparation	552	552	–	–
Shared based payment expense	2,104	2,104	–	–
Existing financing facility cessation fee	–	930	–	–
Income tax effect	–	(754)	–	–
<b>Pro forma</b>	<b>(6,244)</b>	<b>(6,489)</b>	<b>(4,284)</b>	<b>(4,831)</b>

The statutory and pro forma financial results have not recognised revenue and gross margin for the year ended 30 June 2021 relating to finished goods produced to order, not picked up prior to 30 June 2021 pursuant to contract packaging services provided by the Group in the second half of FY21. The associated revenue and gross margin of these services was \$0.8 million and \$0.1 million respectively. This occurrence was in relation to one new customer with the Group dispatching product to all other contract packaging service customers immediately upon completion of production. The Group anticipates the dispatch of this volume in the first quarter of the year ended 30 June 2022 at which point the revenue and gross margin will be recognised by the Group. (Finished goods produced to order not picked up at 30 June 2020: \$nil).

## Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

## Significant changes in the state of affairs

The Company completed an IPO and was admitted to the ASX on 9 December 2020.

The Group executed a new financing facility with Longreach Direct Lending Fund from December 2020 (described in note 20) and utilised funds from the facility in accordance with a prescribed borrowing base assessment. During the year, the Group has drawn the facility to its maximum limit of \$15.0 million. On 26 August 2021, the Company executed a credit approved term sheet with Longreach Credit extending the secured financing facility agreement limit to \$25.0 million.

The Group finalised the acquisition of the Eden Lassie agave farm in The Whitsundays region of Queensland in December 2020.



## Directors' report (continued)

The Group executed a property lease agreement providing the Group with a second whisky maturation facility in Somerton, Melbourne, Victoria in February 2021. The initial term of the lease agreement is for three years with options for a further two terms of five years each. In accordance with the lease agreement, the Group has arranged a security deposit in the form of a bank guarantee of \$150,000.

There were no other significant changes in the state of affairs of the Group during the financial year.

### Matters subsequent to the end of the financial year

On 26 August 2021, the Company executed a credit approved term sheet with Longreach Credit extending the secured financing facility agreement limit to \$25.0 million. The updated borrowing base as set out in the term sheet has been expanded to include the present value of the Group's agave plant assets. The term sheet specifies a number of conditions precedent prior to completion of the associated finance documentation. The Group expects to complete the facility extension transaction by 30 September 2021. Details of the term sheet are provided in note 20 of this report.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

### Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

### Environmental regulation

The Group is subject to a significant environmental regulation under State law, primarily a waste treatment agreement with the Yarra Valley Water pursuant to which the Group can only dispose of waste water with a pH value of between 6-10 and temperature less than 40 degrees Celsius. At the Eden Lassie farm, the Group is subject to a range of environmental regulations under State law, primarily the Environmental Protection Act 1994 and the Water Act 2000. The Group is in compliance with these regulations.

### Information on directors

<b>Name:</b>	Adem Karafili
<b>Title:</b>	Chairman
<b>Experience and Expertise:</b>	Adem spent seven years establishing Swisse Wellness before it's sale to Biostime International for nearly \$1.7 billion USD in 2015. Adem held senior positions of CFO, COO and MD at Swisse Wellness. Adem currently Chairs his investment vehicle ANGL Korp and Chairs the 2030 Greater Victoria Commonwealth Games Taskforce.
<b>Other Current Directorships:</b>	The Hydration Pharmaceuticals Company Limited, Hydration Pharmaceuticals Canada Inc.
<b>Former directorships (last 3 years):</b>	–
<b>Special responsibilities:</b>	Chair of the Board
<b>Interests in shares:</b>	2,951,572 ordinary shares (held indirectly)
<b>Interests in options:</b>	1,318,632 options over ordinary shares

<b>Name:</b>	<b>Drew Fairchild</b>
<b>Title:</b>	Chief Executive Officer
<b>Experience and Expertise:</b>	Drew commenced his career as a graduate with Shell Australia, becoming the Finance Director for Shell in Australia and a Director of Shell Australia Limited and its subsidiary companies. After leaving Shell, Drew became CFO of Fulton Hogan and then Cleanaway (whilst trading as Transpacific). Drew then pursued a number of entrepreneurial endeavours, including by co-founding Top Shelf International.
<b>Other Current Directorships:</b>	Non-Executive Director of Damstra Technology Limited.
<b>Former directorships (last 3 years):</b>	–
<b>Special responsibilities:</b>	Chief Executive Officer
<b>Interests in shares:</b>	2,758,120 ordinary shares (held indirectly)
<b>Interests in options:</b>	1,318,632 options over ordinary shares
<b>Name:</b>	<b>Peter Cudlipp</b>
<b>Title:</b>	Non-Executive Director
<b>Experience and Expertise:</b>	Peter has over 40 years of experience advising a wide range of large multinational and national companies around customer driven growth. Peter commenced his career in advertising and held executive roles in Australia's leading advertising agencies. In 2004 Peter joined the boutique management consulting firm Growth Solutions Group and in his role as Partner/Director, helped build the firm to be one of Australia's leading consultancies for customer and brand led growth specialising in the alcoholic beverages, retail, financial services and higher education sectors.
<b>Other Current Directorships:</b>	–
<b>Former directorships (last 3 years):</b>	–
<b>Special responsibilities:</b>	None
<b>Interests in shares:</b>	639,576 ordinary shares (held indirectly)
<b>Interests in options:</b>	267,977 options over ordinary shares

**Directors' report (continued)**

<b>Name:</b>	<b>Michael East</b>
<b>Title:</b>	Non-Executive Director (appointed 15 September 2020)
<b>Experience and Expertise:</b>	Michael has 35 years of international and Australian experience within the wine and spirits industry. He has held senior executive positions as CEO Accolade Wines, Managing Director Fine Wine Partners and Southcorp Wines Australasia, and Sales Director Pernod Ricard. He is committed to delivering sustainable commercial partnerships, shareholder value and people and culture development. Michael has also served on the Boards of the Winemakers Federation of Australia and the Liquor Merchants Association Australia.
<b>Other Current Directorships:</b>	Taylors Wines Pty Ltd
<b>Former directorships (last 3 years):</b>	–
<b>Special responsibilities:</b>	None
<b>Interests in shares:</b>	197,400 ordinary shares (held indirectly)
<b>Interests in options:</b>	110,057 options over ordinary shares

<b>Name:</b>	<b>Ken Poutakidis</b>
<b>Title:</b>	Non-Executive Director
<b>Experience and Expertise:</b>	Ken is a corporate adviser and corporate finance executive with 20 years of finance experience. Ken is Managing Director and Founder of Avenue Advisory, a boutique advisory firm providing corporate finance and capital markets advice to emerging companies. Previously, Ken worked as a management consultant and a corporate finance executive with leading equity firms across Australia and Asia.
<b>Other Current Directorships:</b>	Non-Executive Director of Contango Asset Management Ltd; Founder and Chair of the Theofilos Foundation.
<b>Former directorships (last 3 years):</b>	Chairman of the Board and Non-Executive Director of Mach7 Technologies Ltd
<b>Special responsibilities:</b>	Chair of the Audit and Risk Committee, Chair of the Remuneration Committee
<b>Interests in shares:</b>	532,980 ordinary shares (held indirectly)
<b>Interests in options:</b>	267,977 options over ordinary shares

<b>Name:</b>	<b>Bruce Peterson</b>
<b>Title:</b>	Former Non-Executive Director (resigned effective 23 July 2020)
<b>Experience and Expertise:</b>	Bruce is the founder of Grande Exhibitions, the creator and marketer of traveling exhibitions of broad mass appeal. Grande has exhibited in approx. 80 cities globally across six continents, with 6.5 million visitors/ Grande Exhibitions also owns and operates "il Genio di Leonardo da Vinci Museo" in Rome.



'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

## Company secretary

<b>Name:</b>	Kim Graves
<b>Title:</b>	Company Secretary
<b>Experience and expertise:</b>	Legal Counsel and Chartered Secretary. Kim has over 30 years' experience in national and international project acquisition, finance, regulatory approvals, development and operations. He has been a member of wholly-owned and joint venture management teams for listed and non-listed companies, including Shell Australia. Kim is a founding shareholder of Top Shelf.

## Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2021, and the number of meetings attended by each director were:

### Board meetings<sup>1</sup>

Director	Attended	Held
Adem Karafili	16	17
Drew Fairchild	17	17
Peter Cudlipp	15	17
Ken Poutakidis	16	17
Michael East	14	15

### Audit and Risk Committee meetings

Director	Attended	Held
Peter Cudlipp	3	3
Ken Poutakidis	3	3
Michael East	2	2

### Remuneration and Nomination Committee meetings

Director	Attended	Held
Peter Cudlipp	2	2
Ken Poutakidis	2	2
Michael East	2	2

Held: represents the number of meetings held during the time the director held office.

<sup>1</sup> Bruce Peterson did not attend any board meetings for the year ended 30 June 2021.

## Directors' report (continued)

### Loans to directors and executives

There were no loans to directors and executives as at 30 June 2021.

904,976 shares were issued to entities controlled by Adem Karafili and Drew Fairchild at an issue price of \$2.21 per share as partial repayment of loans provided by those entities during the year.

### Shares under option

Unissued ordinary shares of Top Shelf International Holdings Ltd under option at the date of this report are summarised in note 37 of this report.

### Shares issued on the exercise of options

There were no ordinary shares of Top Shelf International Holdings Ltd issued on the exercise of options during the year ended 30 June 2021 and up to the date of this report.

### Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young Australia during or since the financial year.

### Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

### Non-audit services

The following non-audit services were provided by the Company's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Investigating Accountant services in relation to the Company's IPO	484,000
Tax advisory services in relation to the Company's IPO	140,000
Other	5,000
	629,000

## Officers of the Company who are former partners of Ernst & Young

There are no officers of the Company who are former partners of Ernst & Young.

## Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

## Letter from the Chairman of the Remuneration and Nomination Committee

Dear shareholders,

Welcome to our first Remuneration Report since our listing on the Australian Securities Exchange (ASX) in December 2020.

From our beginnings in 2014, through to reaching a significant milestone for our company in December 2020 with our initial public offering and listing on the ASX, we have continued our strong trajectory of growth and evolution. Our first partial year as a listed company has been one of further development and change, but also a continuation of what we have been building for a number of years.

While we are in our pre-profit growth phase, our business metrics are focused on top line growth, with our revenue growing from \$7.7 million in FY20, to \$19.2 million this financial year, and an increase in gross profit from \$1.8m in FY20, to \$4.7 million this financial year. In particular we have been able to attract many high calibre people across our marketing, distribution and manufacturing divisions who bring with them commitment to continue our program of building the business. The year has not been without challenges – the COVID-19 pandemic impacted our company like it did most companies in Australia, and particularly Victoria. However, we have been proud to continue to operate and support the health and safety of our staff, without the need for government assistance.

Our remuneration arrangements are currently reflective of our size and our maturity as a new business. We provide fixed remuneration, and for our executive KMP, an LTI plan based on Group, Personal and share price performance over three years. In our early pre-profit phase, we do not believe that a plan based on short-term targets is appropriate, and as such we have no STI plan for our executive KMP. We strongly believe that this mix of remuneration components provides sufficient reward to our executive team for growing our business and aligns their wealth with that of our shareholder experience.

We are a small but ambitious growth company, and we are very pleased that you have joined us on the journey. Our remuneration arrangements will change as we grow and evolve as a company over the years ahead in response to the changes in our business and we look forward to communicating these changes in future reports.

We trust that you will enjoy reading about our company and how we pay our key management.



**Ken Poutakidis**

Chairman of the Remuneration and Nomination Committee



## Directors' report (continued)

### Remuneration report (audited)

The directors present the Company's 2021 Remuneration Report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year. The report has been prepared and audited against the disclosure requirements of the *Corporations Act 2001* (Cth).

#### 1. Key Management Personnel ("KMP")

Key management personnel (KMP) are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Company. For FY21, our KMP are:

Executive Directors	Position	Term
Adem Karafili <sup>1</sup>	Executive Chairman	Full year
Drew Fairchild	Chief Executive Officer	Full year
Non-executive Directors (NEDs)	Position	Term
Ken Poutakidis	Non-executive Director	Full year
Peter Cudlipp	Non-executive Director	Full year
Michael East <sup>2</sup>	Non-executive Director	15 September 2020 – 30 June 2021
Bruce Peterson <sup>3</sup>	Non-executive Director	1 July 2020 – 23 July 2020

<sup>1</sup> Adem Karafili was appointed as Non-executive Director and Chairman of the Company on 1 April 2018, and as Executive Chairman on 19 October 2020. He is considered to be KMP for the full year.

<sup>2</sup> Michael East was appointed to the Board of the Company as a Non-executive Director on 15 September 2020, and was considered to be KMP at that point in time.

<sup>3</sup> Bruce Peterson resigned as of Non-executive Director on 23 July 2020 and was considered to be KMP until that date.

## 2. Remuneration at a glance

### 2.1 Our remuneration philosophy

Our remuneration philosophy is reflective of our core purpose, which is to promote, celebrate and enjoy our distinctive Australian way of life, for both our shareholders and our people. Our remuneration framework reflects our journey and our position as a company in the pre-profit phase of our growth cycle. Traditional metrics of company performance around profitability and earnings are not yet relevant for us, and as such, our remuneration framework focuses on revenue and increasing shareholder value through growth in our share price.

We have made a number of key talent hires throughout the year to help further our ambition of becoming Australia's largest distiller of spirits with Australian provenance. Our remuneration framework is key to continuing to attract, retain and motivate our people, and has two key elements: fixed remuneration and long-term incentives. Refer section 2.2.

Being in the early phases of a growth as a company, our remuneration framework is simple, and focused on leveraging reward that only has value to an executive where our share price has significantly increased over time. We chose this framework to reflect our ambitions for growth, but also our desire to strongly align Executive KMP outcomes to our new and existing shareholders' experience.

### 2.1 Remuneration principles

The following chart outlines the remuneration principles agreed by the Board and the Remuneration and Nominations Committee, which have guided our initial remuneration structure for FY21:

#### OUR STRATEGIC OBJECTIVES...



#### ...WHICH TRANSLATE INTO OUR REMUNERATION PRINCIPLES



## Directors' report (continued)

### 2.2 Remuneration framework

The executive remuneration framework is comprised of two key components, representing both fixed and variable reward at Top Shelf. The purpose, link to performance, and delivery mechanism, is summarised below. Refer section 4 for further detail.

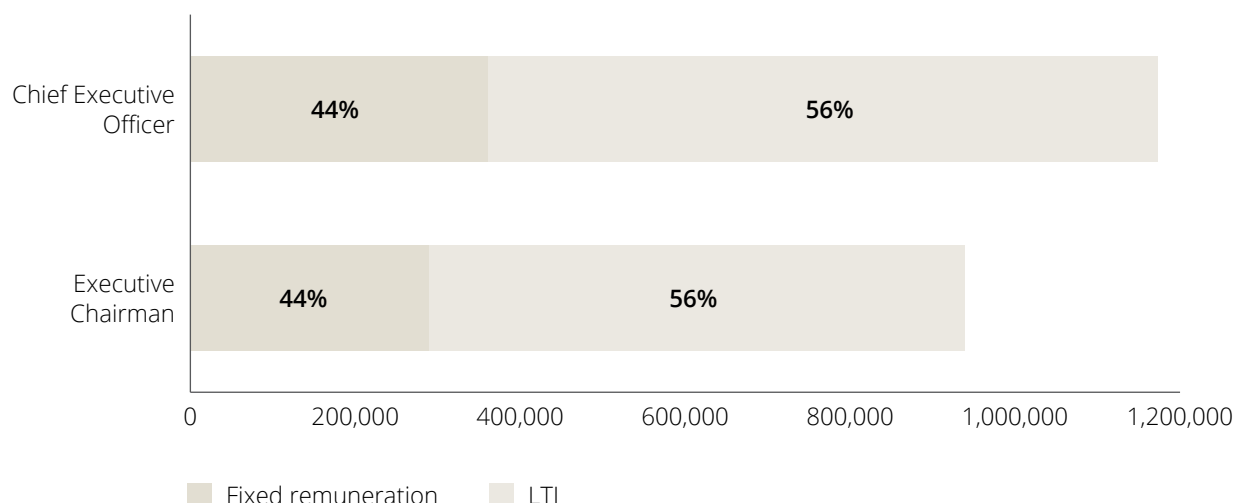
Element of reward	Purpose	Link to performance	Delivery
<b>Fixed remuneration</b> , which reflects base salary, superannuation at the prevailing rate, and employee benefits.	<ul style="list-style-type: none"> <li>Set at a level to attract and retain top talent to Top Shelf.</li> <li>Takes account of the strategic value of the role, individual responsibilities and experience.</li> </ul>	N/A	Cash, superannuation and motor vehicle allowance.
<b>Long term incentive</b> , which is an award of premium-priced options that recognise past performance, and reward for future sustained growth in the business.	<ul style="list-style-type: none"> <li>Rewards executives for contributing to the business pre-IPO, and for achieving key growth targets (share price, revenue and other KPIs), and provides value to the participant for sustainable long-term growth aligned to shareholder value creation.</li> </ul>	<p>For FY21, the LTI rewards for contribution to the Top Shelf prior to the listing, as well as key measures of performance:</p> <ul style="list-style-type: none"> <li>Share price growth over three years;</li> <li>Group revenue growth (in the first year); and</li> <li>Achievement of individual KPIs aligned to the growth of the business (in the first year).</li> </ul> <p>In addition, all options have premium-priced exercise prices, requiring a significant increase in share price above our listing price before they are in the money for the participant.</p>	<p>Premium-priced options, requiring a significant increase in the share price over the listing price in order for any value to be attained by participants.</p> <p>Award of 125% of base salary for each Executive KMP participant.</p> <p>Subject to malus and clawback provisions.</p>



## 2.3 Remuneration quantum and mix

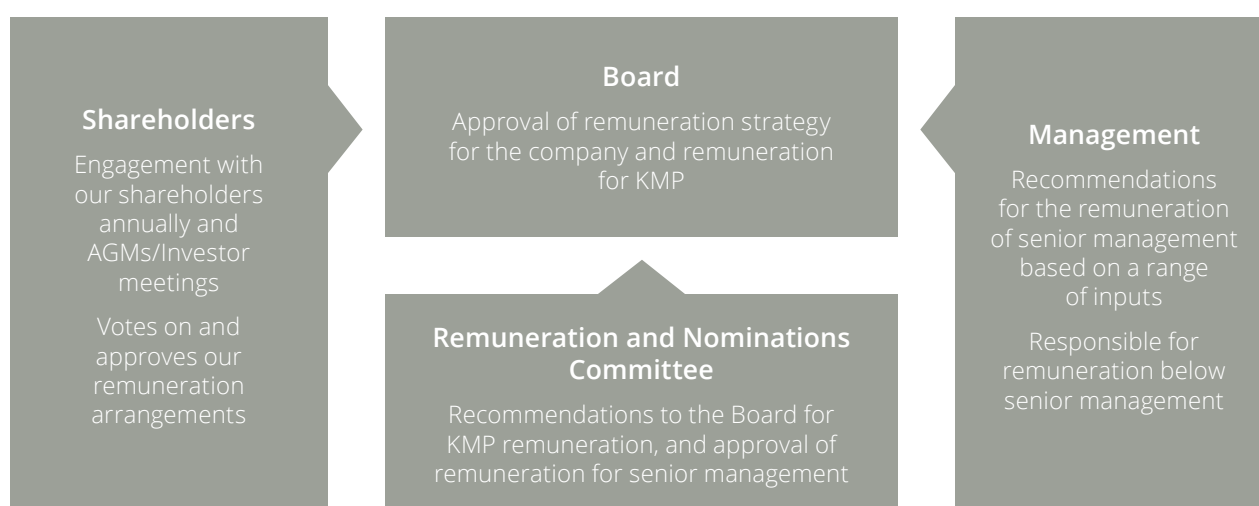
The following chart outlines the intended remuneration quantum and mix for the Executive Chairman and the Chief Executive Officer, based on full year fixed remuneration and the LTI opportunity:

*Intended Remuneration Quantum and Mix*



## 3. Remuneration governance

The chart below outlines the role of each key role in the setting and assessing of remuneration at Top Shelf:



### *Role of the Board and Remuneration and Nomination Committee*

Amongst other responsibilities, the Remuneration and Nomination Committee makes recommendations to the Board regarding:

- The remuneration strategy, policies and outcomes applicable to the Chief Executive Officer and Executive Chairman, as well as other members of the Board.
- On the recommendation of the Chief Executive Officer, reviews and recommends the remuneration strategy, policies and outcomes of the other members of the senior management team at Top Shelf.

## Directors' report (continued)

The Committee reviews and determines the remuneration policy and structure annually to ensure it remains aligned to business needs, and meets the remuneration principles. In particular, the Committee seeks to confirm that remuneration practices are:

- Encouraging and sustaining a culture aligned with the Company's values;
- Supporting the Company's strategic objectives and long-term financial soundness; and
- Aligned with the Company's risk management framework and risk appetite

### *Use of independent remuneration consultants*

From time to time, the Committee may seek independent external advice from an external remuneration consultant. The Committee has not appointed a formal independent board remuneration advisor for the year ended 30 June 2021. During the year ended 30 June 2021, assistance was sought in relation to the development of remuneration arrangements, and assistance with the development of remuneration reporting. No remuneration recommendation was made in relation to these services.

### *Minimum shareholding requirements*

At this point in our growth path, we have not set minimum shareholding requirements for Executive or Non-executive Director KMP. All members of KMP will progressively build up their shareholdings in Top Shelf over a period of time, and in the view of the Board, it is not yet appropriate to mandate a minimum holding.

### *Dealing in Securities Policy*

Top Shelf has put in place a policy with regards to trading in Top Shelf securities ("Securities Dealing Policy"). The policy prohibits all employees and connected persons from dealing in the Company's securities if they are aware of confidential information that is price sensitive, or the Company has notified the employee that they must not deal in securities (whether for a specified period, until further notice is provided by the Company). A copy of the policy can be found on our website.

## 4. Executive KMP remuneration components

### 4.1 Fixed Remuneration

Executives may receive their fixed remuneration as cash, or cash with non-monetary benefits, as well as superannuation. Fixed remuneration is reviewed by the Board from time to time, or on promotion. When reviewed in future, fixed remuneration may be benchmarked against market data for comparable roles in companies in a similar industry and of a similar size and complexity.

Superannuation is included in fixed remuneration at the prevailing rate (FY21: 9.5% per annum).

No fixed remuneration increases were made to members of KMP in FY21 following their appointment dates.

### 4.2 Short-term incentive

In the year ended 30 June 2021, no STI arrangements were offered to members of KMP. With Top Shelf being in its pre-profit phase, the Board does not believe that short-term measures of performance for KMP are currently appropriate.

### 4.3 Long-term incentive

The Company granted Options to Executive KMP under the terms of the Long-Term Incentive Plan (LTIP) prior to listing on the ASX (Initial Option Offer).

The purpose of the Initial Option Offer is to:

- Reward key individuals for their contribution to the Company and to reward executives for performance achieved prior to the Completion of the listing on the ASX; and
- To further align their interests with the interests of Shareholders into the future.

To that end, the Initial Option Offer has been structured into two tranches – Tranche 1 (70% of the Initial Option Offer) was awarded to recognise past service and contribution to the Group, and vested immediately upon issue. Tranche 2 (30% of the Initial Option Offer) is performance-based and is moderated based on Group revenue and Personal KPI performance in the first year, and a share price hurdle requiring the share price to grow beyond the grant price over a three year period.

It's important to note that all options awarded to Executive KMP under the Initial Option Offer have premium-priced exercise prices, and will deliver no value to the Executive if the share price does not reach the stretch premium-priced exercise price set at the date of grant, which represents a 70% premium to the price at which the company offered shares under the IPO.

The Board strongly believes that the combination of revenue, personal KPIs aligned to our strategic objectives and share price growth, coupled with premium-priced exercise pricing, is sufficiently challenging and that any award that ultimately vests will have seen considerable shareholder wealth generation. In addition, the Board sought to recognise the achievements and successes of key management in taking the company to listing and the potential that the listing offers for our future growth.

Feature	Description
<b>Eligibility</b>	Executive Chairman and Chief Executive Officer
<b>Award opportunity</b>	125% base salary
<b>Tranche 1 Vesting conditions</b> <i>70% of the Initial Option Offer</i>	<b>Tranche 1 – Service-based vesting immediately for recognition of prior service</b> Recognition for prior contribution to the company pre-listing, and to align Executive KMP with shareholders. Options were immediately vested and exercisable at the discretion of the Executive, up to the expiry date. No performance conditions applied to Tranche 1 Options, however before any value from these Options is provided to the executive, the premium-priced exercise price must be paid. At the date of this report, the Tranche 1 Options are not yet in the money.
<b>Tranche 2 Performance measures and period</b> <i>30% of the Initial Option Offer</i>	<b>Tranche 2 – Performance-based vesting after three years</b> Tranche 2 performance-based Options are subject to a service condition, such that one-third of the Options granted vest on each anniversary from the date of the grant over the three year performance period. The service condition is satisfied if each executive remains employed by the group on a continuous basis until each the following anniversary dates: 15 October 2021, 15 October 2022 and 15 October 2023. The number of Options that can ultimately vest are moderated by Group Revenue and Personal Contribution KPI performance at the end of the first year, and then vest are subject to a performance based vesting condition, which is linked to the share price growth achieved by the Company based on the 5 day VWAP immediately prior to the 3rd anniversary of the grant of the Options, as outlined in the table below:

**Directors' report (continued)**

	After the first year end 30 June 2021	Vesting date								
	<p>Two moderators apply to the Options that will be capable of vesting in three years:</p> <p>1. <b>A revenue moderator applies to 70% of the Tranche 2 Options:</b></p> <ul style="list-style-type: none"><li>Where FY21 revenue is equal to or greater than \$20m, all Tranche 2 Options subject to this moderator are capable of vesting.</li><li>Where FY21 revenue is less than \$20m, only 80% of the Tranche 2 Options subject to this moderator are capable of vesting.</li></ul> <p>2. <b>A Personal Contribution KPI moderator applies to the remaining 30% of the Tranche 2 Options:</b></p> <ul style="list-style-type: none"><li>Each individual's aggregate FY21 performance rating on 5 personal KPIs is used to downward moderate the number of Options that can vest, with thresholds required to be met on 3 of the 5 KPIs for these Options to be capable of vesting.</li><li>For the Tranche 2 Options subject to this moderator to be capable of vesting, the executive would need to achieve the maximum on all KPIs.</li></ul>	<p>The number of Options that are capable of vesting is determined by the moderators to the left.</p> <p>The number of these Options that ultimately vest to each executive is linked to share price performance based on the 5 day VWAP immediately prior to the 3rd anniversary of the grant of the options, based on the following scale:</p> <table><tr><th>Share price at vesting date</th><th>Proportion that vest</th></tr><tr><td>5 day VWAP &lt;= \$2.026</td><td>0% vest</td></tr><tr><td>5 day VWAP between \$2.027 and \$6.331</td><td>Straight line vesting in between</td></tr><tr><td>5 day VWAP is &gt; \$6.331</td><td>100% vesting</td></tr></table> <p>Regardless of the share price achieved and Options that vest, all Options remain subject to the premium-priced exercise price before they can be exercised, ensuring strong alignment to shareholder wealth creation.</p>	Share price at vesting date	Proportion that vest	5 day VWAP <= \$2.026	0% vest	5 day VWAP between \$2.027 and \$6.331	Straight line vesting in between	5 day VWAP is > \$6.331	100% vesting
Share price at vesting date	Proportion that vest									
5 day VWAP <= \$2.026	0% vest									
5 day VWAP between \$2.027 and \$6.331	Straight line vesting in between									
5 day VWAP is > \$6.331	100% vesting									
<b>Delivery of awards and exercise price</b>	<p>Tranche 1 and Tranche 2 awards are delivered as premium-priced options.</p> <p>The FY21 exercise price was set at \$3.445 per option, being 170% of the pre-listing share price at the date of grant, 6 November 2020.</p> <p>For future grants made under the LTI plan, options' exercise price will be determined based on a weighted average price at which the company's shares are traded on the ASX up to the date of the grant.</p>									
<b>Expiry date</b>	<p>The FY21 options award will expire on 6 November 2026 unless exercised first.</p>									
<b>Board discretion</b>	<p>The Board retains the overarching discretion to determine the vesting outcomes of Options, to protect against perverse outcomes.</p>									
<b>Forfeiture and termination</b>	<p>The options will lapse if performance conditions are not met. Unvested options will be forfeited on cessation of employment unless the board determines otherwise, eg. the participant is determined to be a 'good' leaver for reasons of death, disability or redundancy. Vested options will be retained, subject to the payment of the premium-priced exercise price before value is delivered to the executive.</p>									
<b>Malus and clawback</b>	<p>At the Board's discretion, awards of options will lapse in the event of serious misconduct, misstatement of results, or any act that brings the company into disrepute, amongst other trigger events.</p>									

#### 4.4 Service agreements

The following table outlines the summary terms of employment for the Executive KMP:

Terms	Executive Chairman	Chief Executive Officer
<b>Appointment date</b>	1 April 2018 – Non-executive Director and Chairman 19 October 2020 – Executive Chairman	1 June 2017 – Co-founder 1 September 2020 – CEO
<b>Fixed remuneration</b>	Adem is entitled to receive annual total fixed remuneration of \$314,000 (inclusive of base salary, superannuation and motor vehicle allowance).	Drew is entitled to receive annual total fixed remuneration of \$361,000 (inclusive of base salary and superannuation).
<b>Long-term incentive</b>	Adem is eligible to participate in the Long Term Incentive Plan, at 125% of base salary.	Drew is eligible to participate in the Long Term Incentive Plan, at 125% of base salary.
<b>Contract duration</b>	Open ended	
<b>Notice period and termination</b>	Employment may be terminated by either party upon giving 6 months' notice. Top Shelf may make payment in lieu of notice. In the event of serious misconduct or other circumstances warranting summary dismissal, Top Shelf may terminate the employment contract immediately without payment in lieu of notice.	
<b>Post-employment restraint period</b>	Following termination of employment, each executive will be subject to post-employment non-competition and non-solicitation restraints that apply across Australia for a period of 12 months. The enforceability of the restraint clause is subject to all standard legal requirements.	

## 5. Company performance

### 5.1 Statutory key performance indicators

The table below shows measures of the group's financial performance over the last five years as required by the *Corporations Act 2001*. As the Company is still within its pre-profit growth phase, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

Performance element <sup>1</sup>				
AUD thousands	2021	2020	2019	2018
Revenue	19,161	7,679	2,163	671
Gross profit	4,667	1,803	598	(120)
EBIT	(15,999)	(5,227)	(2,443)	(1,809)
Share price at year end	1.76	n/a	n/a	n/a
Dividend (cents)	Nil	Nil	Nil	Nil
Basic loss per share (cents) <sup>2</sup>	0.25	0.16	0.12	0.21

<sup>1</sup> Audited historical results of the Company are not available prior to 2018.

<sup>2</sup> The basic loss per share calculation has been prepared on a post share split basis, which was undertaken by the Company on 10 November 2020.

No dividend was payable to shareholders in FY21.



## Directors' report (continued)

### 5.2 Discussion of key business outcomes

In FY21, the Company's performance was highlighted by the successful IPO in December 2020 and achievement of financial and non-financial targets set out in the Company's prospectus inclusive of gross margin and EBITDA.

The Company successfully launched the Grainshaker Vodka brand, enhanced the Company's branded product range and sales channels, advanced the scale of new make whisky spirit production to have maturing whisky on hand by 30 June 2021 with a net sales value of \$111 million and be production self-sufficient in future periods, continued the development of the Eden Lassie agave farm in The Whitsundays region of Queensland to have 515,000 plants in ground and nursery by 30 June 2021, and expanded the people capability required to execute the Company's growth strategies.

#### 5.2.1 Long-term incentive outcomes

All Tranche 1 LTI vested and were exercisable in FY21.

For FY21 Tranche 2 LTI, the service period does not fully conclude until after 30 June 2023. In respect of the moderator performance conditions that will determine the number of Options that are capable of vesting, subject to the share price hurdle being achieved, the following performance objectives have been achieved in FY21:

Executive	Group Revenue (Target: \$20.0 million)	% of 70% of Tranche 2 LTI Options capable of vesting	Personal Contribution KPI	% of 30% of Tranche 2 LTI Options capable of vesting
Drew Fairchild	Not achieved	80%	Achieved	80%
Adem Karafili	Not achieved	80%	Achieved	80%

## 6. Non-executive directors' remuneration

### 6.1 Policy and structure

Non-executive directors receive a board fee for their services as a Director of the company, and for chairing or participating on board committees, see table 6.2 below. They do not receive performance-based pay or retirement allowances. Annual Non-executive directors' fees, inclusive of superannuation, are \$60,000 including any Committee membership.

Fees may be reviewed from time to time by the board taking into account comparable roles and market data. The current base fees were set with effect from 1 July 2020.

Under the Company's Constitution, the Board decides the total amount paid to each Non-executive director as remuneration for his or her services as a Director to the Company. The total amount paid to all Non-Executive Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company in a general meeting of shareholders. This amount has been fixed by the Company at \$350,000 per annum.

The Directors are entitled to be paid all travelling and other expenses they incur in attending to the Company's affairs, including attending and returning from general meetings of the Company or meetings of the Board or of committees of the Board. Such amounts will not form part of the aggregate remuneration amount approved by Shareholders.

Any Director who performs extra services, makes any special exertions for the benefit of the Company or who otherwise performs services which, in the opinion of the Board, are outside the scope of the ordinary duties of a non-executive director, may be remunerated for the services (as determined by the Board) out of the funds of the Company. Any amount paid will not form part of the aggregate remuneration amount approved by Shareholders.

In FY21, Non-executive Directors could elect to sacrifice a portion of their expected pre-tax future Board fees into equity under the Non-executive Director Offer. The options do not have performance conditions attached, and are zero exercise priced. Refer section 6.3 below. Each of the three Non-Executive Directors participated in the Non-Executive Director Offer and sacrificed their FY21 board fees in return for being issued with NED Options.

## 6.2 Board and committee fees

FY21 Board fee element	Member (\$)
Board	60,000
Audit and Risk Committee	–
Remuneration and Nomination Committee	–

## 6.3 Non-executive Director Initial Option Offer

The following table outlines the key features of the Non-executive Director Option Offer, for those Directors who chose to take it up:

Feature	Description
<b>Eligibility</b>	All Non-Executive Directors may participate in the Non-Executive Director Offer at their own discretion.
<b>Quantum and Award vehicle</b>	<p>The number of NED Options to be granted to each Non-Executive Director will be determined by dividing the value of the Foregone Board Fees by the market value as at the date of grant (or, for the initial offer under the Non-Executive Director Offer, the Offer Price).</p> <p>The award is made into Zero Exercise Price Options.</p>
<b>Exercise price</b>	Nil exercise price
<b>Vesting conditions</b>	<p>NED Options acquired under the Non-Executive Director Offer will vest equally on a monthly basis, in line with payment of usual payment of Board fees. No performance conditions apply to the NED awards.</p> <p>NED Options may be exercised following vesting and from the next available 'trading window' (Vesting Date).</p> <p>Vesting of the NED Options is conditional upon the Non-Executive Director remaining a Director of the Company at the date of Vesting Date.</p>
<b>Shares acquired on conversion of options</b>	<p>Resultant Shares issued on the exercise of the Non-Executive Director Options will be restricted from disposal until the earlier of:</p> <ul style="list-style-type: none"> <li>the expiry of the nominated disposal restriction period set out in the relevant participation letter; and</li> <li>the date the Non-Executive Director ceases office as a Director,</li> </ul> <p>If the NED Restriction Period ends at a time that the Non-Executive Director is prohibited from trading in Shares under the Company's share trading policy or applicable laws, the NED Restriction Period will continue until this prohibition ceases to apply.</p>
<b>Ceasing to be a Non-executive Director</b>	<p><b>Non-Executive Director Options:</b></p> <p>Where a Non-Executive Director ceases to hold office as a Director, all vested Non-Executive Director Options will be retained by that Non-Executive Director. The unvested Non-Executive Director Options will lapse.</p> <p><b>Shares:</b></p> <p>Where a Non-Executive Director ceases to hold office as a Director and holds Shares (which were acquired on the exercise of Non-Executive Director Options), the Non-Executive Director will retain all of those Shares.</p>

## Directors' report (continued)

### Pre initial public offering share-based payment

In addition to the option offers summarised above to the Non-Executive Directors, Peter Cudlipp and Ken Poutakidis were issued with the equivalent of 27,636 and 11,844 ordinary shares respectively in September 2020.

## 7. KMP statutory remuneration tables

### 7.1 Statutory KMP remuneration table for FY21

The following table shows details of the remuneration expense recognised for the group's executive and non-executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

As this is the Company's first Remuneration Report as a listed entity, comparative data for prior years (including FY20) has not been included. Comparative information will be included from the FY22 Remuneration Report onwards.

		Short-term benefits			Post-employment benefits	Share-based payments <sup>1</sup>	Total benefits and payments	
Financial year end 30 June		Base Salary/Directors fees (\$)	Non-monetary benefits (\$)	Other (\$)	Super-annuation (\$)	Long-term incentive (\$)	Total remuneration	% of total remuneration that is performance based <sup>3</sup>
<b>Executive directors</b>								
Adem Karafili	2021	160,372	13,230	12,015	16,492	200,320	390,504	10.3%
Drew Fairchild <sup>2</sup>	2021	203,793	–	21,844	19,360	200,320	423,473	9.5%
<b>Non-executive directors</b>								
Ken Poutakidis <sup>4</sup>	2021	–	–	–	–	175,797	175,797	Nil%
Peter Cudlipp <sup>4</sup>	2021	–	–	–	–	210,698	210,698	Nil%
Michael East	2021	–	–	–	–	79,032	79,032	Nil%
Bruce Peterson	2021	–	–	–	–	–	–	–

<sup>1</sup> Share based payments reflects the accounting cost of the Company's initial option offer and non-executive director offer in accordance with AASB 2 *Share-based Payment*.

<sup>2</sup> The short-term benefits and post-employment benefits of Adem Karafili and Drew Fairchild reflect employment commencement as of 19 October 2020 and 1 September 2020 respectively. Transactions with Drew Fairchild prior to this commencement date are set out in Section 7.4.

<sup>3</sup> The remuneration of the Executive directors that was performance based relate only to Tranche 2 of the Initial Option Offer as there were no performance conditions associated with Tranche 1.

<sup>4</sup> Share based payments to Ken Poutakidis and Peter Cudlipp include the value of the ordinary shares issued in September 2020 as part of the pre initial public offering share based payment to select directors and employees.

## 7.2 Equity award tables for FY21

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Tranche	Grant date	Vesting and exercise date	Expiry date	Exercise price	Fair value per option at grant date	Performance achieved	% vested and exercisable <sup>1</sup>	Value (\$)
LTIP – Tranche 1	6 November 2020	6 November 2020	6 November 2026	\$3.445	\$0.175	n/a	100%	493,524
LTIP – Tranche 2	6 November 2020	15 October 2021 15 October 2022 15 October 2023	6 November 2026	\$3.445	\$0.244	Refer Section 5.1	–	105,395
NED Option Offer	6 November 2020	Monthly throughout the year	n/a	Nil	\$2.21	n/a	100%	180,000

<sup>1</sup> During the year ended 30 June 2021, no vested options were exercised by any of the directors.

The number of options over ordinary shares in the company provided as remuneration to KMP are shown in the table below. The options carry no dividend or voting rights. When exercisable, each option can be converted into one ordinary share of Top Shelf International Holdings Ltd upon the receipt of a notice of exercise and payment of the exercise price (where applicable).

The table below shows a reconciliation of options held by each KMP from the beginning to the end of FY21.

Name and grant date	Balance at the start of the year (un-vested)	Granted as remuneration or on IPO	Vested <sup>1</sup>		Forfeited			Other changes	Balance at the end of the year		
			Number	% Exercised	Number	%	Vested and exercisable		Unvested		
A Karafili											
6 November 2020	–	1,318,632	915,936	70%	–	–	–	–	915,936	402,696	
D Fairchild											
6 November 2020	–	1,318,632	915,936	70%	–	–	–	–	915,936	402,696	
K Poutakidis											
6 November 2020	–	267,977	208,757	78%	–	–	–	–	208,757	59,220	
P Cudlipp											
6 November 2020	–	267,977	208,757	78%	–	–	–	–	208,757	59,220	
M East											
6 November 2020	–	110,057	50,837	46%	–	–	–	–	50,837	59,220	
B Peterson											
	–	–	–	–	–	–	–	–	–	–	

<sup>1</sup> Vested options in the year ended 30 June 2021 reflected tranche 1 options and the non-executive director initial option offer.

**Directors' report (continued)****7.3 KMP shareholdings**

FY21	Opening balance start of year (#) <sup>1</sup>	Shares issued upon exercise of options under incentive plan (#)	Shares issued/purchased or (transferred) prior to completion of IPO (#) <sup>1</sup>	Shares issued on completion of IPO (#) <sup>2</sup>	Shares purchased/(disposed) after completion of IPO (#)	Closing balance end of year (#)
Adem Karafili	2,380,644	–	118,440	452,488	–	2,951,572
Drew Fairchild	2,538,564	–	(438,228)	452,488	205,296	2,758,120
Ken Poutakidis	521,136	–	11,844	–	–	532,980
Peter Cudlipp	611,940	–	27,636	–	–	639,576
Michael East	–	–	197,400	–	–	197,400

<sup>1</sup> The opening balance and shares issued/purchased or transferred prior to completion of the IPO have been presented on a post share split basis, which was undertaken by the Company on 10 November 2020 (i.e. one share was split into 3,948 shares).

<sup>2</sup> Shares issued on completion of the IPO represent the settlement of related party loans provided to the Group by entities controlled by Adem Karafili and Drew Fairchild.

**7.4 Related party transactions*****Transactions with related parties***

During the year ended 30 June 2021, Top Shelf engaged Fairchild Advisory, a controlled entity of Chief Executive Officer Drew Fairchild, in relation to the provision of health, safety, environment, and quality services, and to provide executive services prior to employment commencing in September 2020.

Related party transactions	Consolidated Entity	
	30 June 2021 \$	30 June 2020 \$
Top Shelf engaged Fairchild Advisory, a related party of Chief Executive Officer Drew Fairchild, in relation to the provision of health, safety, environment, and quality services.	106,436	49,414
Chief Executive Officer Drew Fairchild provided services as Chief Executive Officer, prior to becoming an employee of the Company in September 2020.	94,886	192,997

The services were provided on normal commercial terms and conditions and at market rates.

***Receivables from related parties***

There were no trade receivables from related parties at the current or prior reporting date.

***Loans to/from and payable to related parties***

A number of loans were settled during the year ended 30 June 2021 with entities associated with KMP. The loans were made on normal commercial terms and conditions and at market rates in prior years. All related party loans have been repaid in full, either with funds raised during the initial public offering, or through the conversion to issued capital at the date of the initial public offering.



The following related party loan balances and payables were settled during the year ended 30 June 2021:

Related party loan balances	Consolidated Entity	
	30 June 2021 \$	30 June 2020 \$
Loan from Fairchild Advisory Pty Ltd, an entity associated with Drew Fairchild	–	1,396,517
Loan from DanDrewFairchild Pty Ltd, an entity associated with Drew Fairchild	–	121,809
Loan from Ankara Holdings, an entity associated with Adem Karafili	–	1,820,000
Loan from Glankara Super Fund, an entity associated with Adem Karafili	–	692,420

Interest incurred in relation to the related party loans for the year ended 30 June 2021 was \$nil (2020: \$336,500).

**This concludes the remuneration report, which has been audited.**

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



**Drew Fairchild**  
Chief Executive Officer  
27 August 2021  
Melbourne



**Adem Karafili**  
Chairman

# Auditor's independence declaration



8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777  
ey.com/au

## Auditor's Independence Declaration to the Directors of Top Shelf International Holdings Ltd and its Controlled Entities

As lead auditor for the audit of the financial report of Top Shelf International Holdings Ltd the financial year ended 30 June 2021, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Top Shelf International Pty Ltd and the entities it controlled during the financial year.

A handwritten signature in blue ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in blue ink, appearing to be 'Brett Croft'.

Brett Croft  
Partner  
27 August 2021

# Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2021

		Group	
		2021 \$'000	2020 \$'000
Revenue from contracts with customers	5	19,161	7,679
Cost of sales	6	(14,494)	(5,876)
<b>Gross Profit</b>		<b>4,667</b>	<b>1,803</b>
Other Income	7	564	432
Fair value gain on biological assets	18	5,596	–
<b>Expenses</b>			
Sales and marketing expense		(6,194)	(2,004)
Distribution expense		(672)	(315)
Administration and operating expense	8	(7,663)	(2,380)
Employee benefits expense	8	(4,763)	(1,858)
Share-based payments	37	(2,104)	–
Depreciation and amortisation expense	6, 8	(527)	(358)
Finance costs	8	(2,790)	(2,006)
<b>Loss before income tax benefit</b>		<b>(13,886)</b>	<b>(6,686)</b>
Income tax benefit	9	3,147	1,855
<b>Loss after income tax benefit for the year attributable to the owners of Top Shelf International Holdings Ltd</b>		<b>(10,739)</b>	<b>(4,831)</b>
Other comprehensive income for the year, net of tax		–	–
<b>Total comprehensive income for the year attributable to the owners of Top Shelf International Holdings Ltd</b>		<b>(10,739)</b>	<b>(4,831)</b>
		Cents	Cents
Basic earnings per share	36	(25.38)	(16.49)
Diluted earnings per share	36	(25.38)	(16.49)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated statement of financial position

As at 30 June 2021

		Group	
	Note	2021 \$'000	2020 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	9,467	1,656
Trade and other receivables	11	8,018	2,602
Inventories	12	7,447	3,329
Other assets	13	2,400	2,486
Total current assets		27,332	10,073
<b>Non-current assets</b>			
Property, plant and equipment	14	27,227	21,153
Right-of-use assets	15	6,346	7,536
Intangible assets	16	2,040	1,603
Biological assets	18	7,673	729
Deferred tax assets	9	6,856	2,689
Other assets	13	353	225
Total non-current assets		50,495	33,935
<b>Total assets</b>		<b>77,827</b>	<b>44,008</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	19	11,910	5,211
Borrowings	20	–	1,695
Lease liabilities	21	933	2,821
Provisions	22	409	220
Total current liabilities		13,252	9,947
<b>Non-current liabilities</b>			
Borrowings	20	14,877	12,807
Lease liabilities	21	5,986	4,347
Provisions	22, 23	324	302
Total non-current liabilities		21,187	17,456
<b>Total liabilities</b>		<b>34,439</b>	<b>27,403</b>
<b>Net assets</b>		<b>43,388</b>	<b>16,605</b>
<b>Equity</b>			
Issued capital	24	62,450	26,261
Reserves		1,693	–
Accumulated losses		(20,755)	(10,016)
<b>Total equity</b>		<b>43,388</b>	<b>16,605</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying note.

# Consolidated statement of changes in equity

For the year ended 30 June 2021

Group	Issued capital \$'000	Other contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total Equity \$'000
Balance at 1 July 2019	13,733	2,221	661	(5,185)	11,430
Loss after income tax benefit for the year	–	–	–	(4,831)	(4,831)
Other comprehensive income for the year, net of tax	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(4,831)	(4,831)
Transactions with owners in their capacity as owners:					
Contributions of equity (note 24)	10,404	–	–	–	10,404
Share issue transaction costs, net of tax (note 24)	(398)	–	–	–	(398)
Transfers	2,882	(2,221)	(661)	–	–
<b>Balance at 30 June 2020</b>	<b>26,621</b>	<b>–</b>	<b>–</b>	<b>(10,016)</b>	<b>16,605</b>

Group	Issued capital \$'000	Other contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total Equity \$'000
Balance at 1 July 2020	26,621	–	–	(10,016)	16,605
Loss after income tax benefit for the year	–	–	–	(10,739)	(10,739)
Other comprehensive income for the year, net of tax	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(10,739)	(10,739)
Transactions with owners in their capacity as owners:					
Contributions of equity (note 24)	37,993	–	–	–	37,993
Share issue transaction costs, net of tax (note 24)	(2,575)	–	–	–	(2,575)
Pre – IPO share-based payments	411	–	–	–	411
Share-based payments	–	–	1,693	–	1,693
<b>Balance at 30 June 2021</b>	<b>62,450</b>	<b>–</b>	<b>1,693</b>	<b>(20,755)</b>	<b>43,388</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



# Consolidated statement of cash flows

For the year ended 30 June 2021

		Group	
	Note	2021 \$'000	2020 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		16,972	8,007
Payments to suppliers and employees (inclusive of GST)		(32,097)	(13,201)
Interest received		2	
Research and development income		289	44
Government grants received	7	38	50
Net cash used in operating activities	35	(14,796)	(5,100)
<b>Cash flows from investing activities</b>			
Receipts from R&D claim allocated to assets		763	219
Payments for property, plant and equipment		(3,654)	(5,044)
Payments for intangibles		(726)	(1,012)
Payments for biological assets		(1,709)	(908)
Payments for security deposits		(127)	(225)
Net cash used in investing activities		(5,453)	(6,970)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	24	48,153	10,355
Payment of proceeds to selling shareholders	24	(12,200)	–
Share issue transaction costs	24	(5,014)	(548)
Proceeds from borrowings – external financier		8,000	6,100
Proceeds from loans from related parties		2,408	1,208
Repayment of borrowings – external financier		(3,000)	(46)
Repayment of borrowings – related parties		(4,961)	(904)
Repayment of lease liabilities – land		(2,330)	(492)
Repayment of lease liabilities – buildings		(131)	(35)
Interest and finance costs on borrowings		(2,215)	(1,477)
Interest on lease liabilities		(650)	(529)
Net cash from financing activities		28,060	13,632
<b>Net increase in cash and cash equivalents</b>		<b>7,811</b>	<b>1,562</b>
Cash and cash equivalents at the beginning of the financial year		1,656	94
<b>Cash and cash equivalents at the end of the financial year</b>		<b>9,467</b>	<b>1,656</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the consolidated financial statements

30 June 2021

## Note 1. General information

The financial statements cover Top Shelf International Holdings Ltd as a Group consisting of Top Shelf International Holdings Ltd ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year (referred to hereafter as the 'Group' or 'Top Shelf'). The financial statements are presented in Australian dollars, which is Top Shelf International Holdings Ltd's functional and presentation currency.

Top Shelf International Holdings Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. The Company listed on the Australian Securities Exchange ('ASX') on 9 December 2020.

Its registered office and principal place of business is:

16-18 National Boulevard  
Campbellfield VIC 3061

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 August 2021. The directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### New or amended Accounting Standards and Interpretations adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been early adopted by the Group for the annual reporting period ended 30 June 2021. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

*AASB 2020-3 Amendment to AASB 141 – Taxation in Fair value Measurements (Part of Annual Improvements 2018-2020 Cycle)* – As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

*AASB 2020-3 Amendments to AASB 116 – Property, Plant and Equipment: Proceeds before Intended Use* – prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The Group has not yet early adopted any accounting standard, interpretation or amendment that has been issued but is not yet effective at reporting date. No accounting standards, interpretations or amendments that have been issued are expected to have a material impact on the Group's financial statements.

### Going concern

During the year ended 30 June 2021, the Group has continued to invest in the core capabilities required to be Australia's largest multi branded premium spirits business inclusive of the launch of the Grainshaker Vodka brand, production of new make whisky and maturation capacity, development of an agave farm in The Whitsundays region of Queensland and in people required to execute the Company's growth strategies. These investments have resulted in the Group recognising a loss for the year ended 30 June 2021 of \$9.8 million (2020 loss: \$4.8 million).

## Notes to the consolidated financial statements (continued)

### Note 2. Significant accounting policies (continued)

The Group has net current assets of \$14.1 million (2020: \$0.1 million) and net assets of \$43.4 million (2020: \$16.5 million). The Group has available funds of \$9.5 million relating to cash reserves held as at 30 June 2021. The Group has additional undrawn funds of \$8.9 million relating to a credit approved term sheet executed on 26 August 2021 in accordance with the Group's secured finance facility with Longreach Credit.

These financial statements have been prepared on a going concern basis, which assumes the continuity of normal business activities and realisation of assets and the settlement of liabilities in the ordinary course of business.

In assessing the Group's ability to continue as a going concern, the directors have considered the Group's future financial plans and associated capital requirements, existing available funds, and the Company's ability as an ASX listed company to secure further funding to support its strategic objectives and growth plans.

Should the Group be required to conserve cash, the Group will restrict and slow its investment and growth plans accordingly and tailor the business to meet ongoing trading requirements, implement cash preservation measures and efficiency actions, and consider additional near-term revenue generation activities.

The Group is evaluating the option to raise additional equity capital over the course of the next 12 months.

The directors are satisfied that these actions are practical and achievable and are therefore satisfied there are reasonable grounds to conclude the Group can continue as a going concern.

### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, biological assets which have been measured at fair value less costs to sell.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 32.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Top Shelf International Holdings Ltd as at 30 June 2021 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## Note 2. Significant accounting policies (continued)

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### Revenue recognition

The Group recognises revenue as follows:

#### *Revenue from contracts with customers*

Revenue is recognised when or as Top Shelf International transfers control of goods or services to a customer at the amount to which Top Shelf International expects to be entitled. If the consideration promised includes a variable component, Top Shelf International estimates the expected consideration for the estimated impact of the variable component at the point of recognition e.g. discount and re-estimated at every reporting date.

The Group is producer and marketer of high quality Australian spirits-based beverage brands and provider of contract packaging services. The Group generates revenue from the sale of its branded products and by providing contract packing services to third parties for alcoholic and non-alcoholic products.

Revenue from the sale of these goods is recognised when control over the inventory has transferred to the customer. Control is generally considered to have passed when:

- (a) Physical possession and inventory risk is transferred to the customer;
- (b) Payment terms for the sale of goods can be clearly identified through invoices issued to customers; and
- (c) The customer has no practical ability to reject the product where it is within contractually specified limits.

#### *Sale of branded goods*

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery of the product at the customers location. The normal credit term is 30-60 days upon delivery.

#### *Contract packaging services*

Revenue from the sale of contract packaging services is recognised at the point in time to which the customer obtains control of the goods, at the time of delivery/collection of the finished product. Goods manufactured under contract packaging are subject to 30 day terms from dispatch from the Group's production facility in Campbellfield, Victoria.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of branded products, the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the customer (if any).

## Notes to the consolidated financial statements (continued)

### Note 2. Significant accounting policies (continued)

#### *Variable consideration*

If the consideration promised includes a variable component, Top Shelf estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of branded products provide customers with rebates and discounts which give rise to variable consideration. The Group provides retrospective rebates to certain customers, which are offset against amounts payable by the customer.

#### *Excise Duty*

The Group incurs excise duties which are effectively a production tax which becomes payable when the product is removed from bonded premises and is not directly related to the value of sales.

It is not included as a separate item on external invoices; increases in excise duty are not always passed on to the customer and where a customer fails to pay for products received the Group cannot reclaim the excise duty. The Group therefore recognises excise duty, unless it regards itself as an agent of the regulatory authorities, as a cost to the Group and recognised as cost of sales in the statement of profit or loss.

#### *Interest*

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *Government grants*

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions pursuant to which they have been granted and that the grants will be received. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Government grants in respect of property, plant and equipment, intangible, biological or inventory assets are deducted from the asset that they relate to, reducing the depreciation expense charged to the income statement.

### Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

## Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Top Shelf International Holdings Ltd (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

### Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Trade receivables are generally due for settlement within 30 to 60 days from end of month.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.



## Notes to the consolidated financial statements (continued)

### Note 2. Significant accounting policies (continued)

#### Inventories

Inventory cost is measured at the weighted average purchase price of raw materials, net of trade rebates and discounts received, plus the costs incurred in bringing its inventory to its present condition and location including direct expenses, an appropriate proportion of production and other overheads, but not borrowing costs.

Maturing inventories which are retained for more than one year are classified as current assets, as they are expected to be realised in the normal operating cycle.

Inventory is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

##### *Financial assets at amortised cost*

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

##### *Impairment of financial assets*

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

#### Property, plant and equipment

Land is stated at historical cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the land.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

## Note 2. Significant accounting policies (continued)

Depreciation is calculated on a straight-line basis to allocate the cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	10 – 25 years
Plant and equipment – Other	4 – 30 years
Computer equipment	2 – 4 years
Office equipment	10 – 25 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

### *Plant and equipment – Production assets*

In relation to production specific plant and equipment the Group has adopted the policy to depreciate on a units of production method. This method is calculated by dividing the cost of the asset (less its salvage value) by the total units expected to produce over its useful life, multiplied by the actual units produced during the year. The Group considers this was a more accurate representation of the expected pattern of consumption of economic benefit embodied in the equipment.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### **Right-of-use assets**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

### **Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

## Notes to the consolidated financial statements (continued)

### Note 2. Significant accounting policies (continued)

#### *Intellectual property*

Intellectual property relates to trade secrets such as the formation and development of the recipe. These costs are not subsequently amortised. Intellectual property are protected by trademarks, which are renewable indefinitely. There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of these assets. The nature of the drinks industry is that obsolescence is not a common issue, with indefinite lived intangible assets being commonplace. Accordingly, the Directors believe that it is appropriate that the brands are treated as having indefinite lives for accounting purposes and are therefore not amortised.

#### *Trademarks*

Significant costs associated with trademarks are capitalised as an asset. These costs are not subsequently amortised.

#### *Software*

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

#### **Biological assets**

Biological assets represent any unharvested agave valued in accordance with AASB 141 *Agriculture*. Agricultural produce is measured at their fair value less harvesting and selling costs on initial recognition and at each reporting date. The fair valuation takes into account selling prices and anticipated farm operating, freight, processing, packaging and selling costs.

Net increments and decrements in the fair value of the growing assets are recognised as income or expense in profit or loss, determined as:

- The difference between the total fair value of the biological assets recognised at the beginning of the reporting period and the total fair value of the biological assets recognised at reporting date; and
- Costs incurred in maintaining or enhancing the biological assets.

#### **Impairment of tangible and intangible assets**

All indefinite-lived intangible assets that are not subject to amortisation are assessed for impairment at least on an annual basis, or whenever an indication of impairment arises. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. Fair value less cost of disposal is measured with reference to quoted market prices in an active market. Value in use represents the present value of the future amount expected to be recovered through the cash inflows and outflows arising from the asset's continued use and subsequent disposal.

Impairment losses are recognised in the income statement in the reporting period when the carrying amount of the asset exceeds the recoverable amount. The Group recognises any reduction in the carrying value as an expense in the income statement in the reporting period in which the impairment loss occurs.

Impairment assessment is performed at the level of our Production, Brands and Agave cash generating units (CGU).

#### **Impairment of non-financial assets**

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

## Note 2. Significant accounting policies (continued)

### Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days from end of month of recognition.

### Borrowings

Loans and borrowings are initially recognised at the fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

### Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

### Finance costs

Finance costs are expensed in the period in which they are incurred.

### Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

### Employee benefits

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the

## Notes to the consolidated financial statements (continued)

### Note 2. Significant accounting policies (continued)

reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### *Share-based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted, using an appropriate valuation model. The option pricing model can be either the Binomial or Black-Scholes, this takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected volatility of the underlying share, the expected dividend return and the risk free interest rate for the term of the option, together with the non-vesting conditions.

The costs of equity-settled transactions are recognised, together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employee become full entitled to the award (the “vesting date”). For cash settled share-based compensation, the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled.

The cumulative expense is recognised for equity-settled transactions at each reporting date until the vesting date reflects the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of that period and the corresponding amount is represented in the options reserve. At the end of each reporting period, the Group re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of profit and loss.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification. Where an award is cancelled by the Group or counterparty, any remaining element of the fair value of the award is expensed immediately through the consolidated profit and loss.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share at a point when the Group recognises profit after tax.

#### **Issued capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **Reserves**

The option reserve is used to recognise the value of unvested equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services. The amounts are transferred out of the reserve when the shares are issued.

#### **Earnings per share**

##### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company, by the weighted average number of ordinary shares outstanding during the financial year.

## Note 2. Significant accounting policies (continued)

### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### **Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

### **Rounding of amounts**

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

### *Coronavirus (COVID-19) pandemic*

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

## Notes to the consolidated financial statements (continued)

### Note 3. Critical accounting judgements, estimates and assumptions (continued)

#### *Allowance for expected credit losses*

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss ('ECL'), grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

#### *Provision for impairment of inventories*

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

#### *Biological assets fair value measurement*

The unharvested agave plants are classified as a biological assets and valued in accordance with AASB 141 *Agriculture*. In applying this standard, the Group has made various assumptions at the reporting date as the selling price of the plants can only be estimated and the actual yield not harvested at the reporting date will not be known until it is completely processed and sold. Agricultural produce is measured at fair value less costs to sell. The fair value inputs are considered Level 3 with reference to the fair value hierarchy.

#### *Determination of CGUs and their recoverable amounts*

We apply management judgement to establish our cash generating units ('CGU') and determine their recoverable amounts using a value in use calculation for our impairment assessment.

We have determined that the assets within the Group comprise three CGUs. We have referred to these CGUs as Production, Brands and Agave in this report.

Judgements within the value in use calculation include cash flow forecasts, as well as the selection of growth rates, terminal growth rates, contributory asset charges and discount rates based on past experience and our expectations for the future. Our cash flow projections are based on five-year management-approved forecasts. The forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

Additional estimates have been applied by management regarding the potential financial impact of the COVID-19 pandemic across markets. In this regard a combination of the following factors was considered in every impairment model: the future development of the virus, including the duration, scale and geographic extent of the closures; the expected scale and duration of the economic recovery; the size of the on-trade channel in the market; the life cycle phase of the brand and the maturity of the market.

#### *Depreciation method and estimation of useful lives of assets*

The Group has adopted the policy to depreciate plant and equipment relating to production assets on a units of production method. The Group considers the depreciation in line with the estimation of production of units over its useful life to be the measure that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The impact of the production units will be variable in any given financial period and as the business moves towards the full name plate capacity of the assets, it is expected that the annual rate of depreciation under this method will normalise. Any changes made to the assets could impact the estimation of the production capacity of units over its useful life which would change the depreciation per unit. For all other asset classes, it determined that straight-line is the appropriate method of depreciation. These judgements will be applied consistently each period unless there is a change in the expected pattern of consumption of those future economic benefits.



### Note 3. Critical accounting judgements, estimates and assumptions (continued)

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

#### Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

#### Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and tax losses only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses in a reasonable timeframe determined with reference to the long term strategic plans of the Group.

### Note 4. Operating segments

#### Identification of reportable operating segments

The Group is organised into one operating segment as the Group operated only in Australia and one industry, as a producer of branded beverages and provision of contract packing services to third party beverage manufacturers. This is based on the internal reports that are reviewed and used by the Chief Executive Officer (who is identified as the Chief Operating Decision Maker ('CODM')) in assessing performance and in determining the allocation of resources. Accordingly, the information provided in this report reflects the one operating segment.

#### Major customers

During the year ended 30 June 2021 approximately 31% (2020: 19%) of the Group's external revenue was derived from sales to one major customer.

#### EBITDA

Earnings before interest, taxation and depreciation and amortisation ('EBITDA') is a financial measure monitored by the CODM, which is not prescribed by AAS or IFRS. The directors consider the additional information of EBITDA is relevant and useful in measuring the financial performance of the Group.

A reconciliation of EBITDA from loss after income tax is illustrated in the table below:

	Year ended 30 June 2021 (\$'000)	Year ended 30 June 2020 (\$'000)
Loss after tax	(10,739)	(4,831)
Income tax benefit	(3,147)	(1,855)
Finance costs	2,790	2,006
Earnings before interest and taxation (EBIT)	(11,096)	(4,680)
Depreciation and amortisation	778	396
<b>Earnings before interest, taxation and depreciation and amortisation (EBITDA)</b>	<b>(10,318)</b>	<b>(4,284)</b>

**Notes to the consolidated financial statements (continued)****Note 5. Revenue***Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

	Group	
	2021 \$'000	2020 \$'000
<i>Major Product Lines</i>		
Branded (net of discounts and rebates)	12,686	4,072
Contract Packaging	6,475	3,607
	19,161	7,679

**Note 6. Cost of sales**

	Group	
	2021 \$'000	2020 \$'000
Raw materials	6,795	3,147
Employee benefits expense	933	231
Excise	6,515	2,460
Depreciation and amortisation	251	38
	14,494	5,876

**Note 7. Other income**

	Group	
	2021 \$'000	2020 \$'000
Research and development ('R&D') income	1,229	1,052
Allocation of R&D income to property, plant and equipment, intangible, biological and inventory assets	(740)	(763)
Government grants (COVID-19)	38	50
Other	7	93
Other income	564	432

## Note 7. Other income (continued)

### Research and development (R&D) income

During the year ended 30 June 2021, the Company recognised accrued R&D income in relation to expected eligible expenditure associated with Top Shelf's research and development into the production of NED Australian whisky and New Australian Agave Spirit with agronomy and production streams, and improving plant sugar extraction in cereals and agave, creation of low/no sugar products and identification of Australian plant alternatives.

R&D income in relation to property, plant and equipment, intangible, biological or inventory assets are deducted from the asset to which the R&D expenditure related.

The R&D income is recognised within other assets in the statement of financial position. The R&D income claimed and approved by the Australian Taxation Office in relation to the financial year ended 30 June 2020 (\$1.1 million) was received by the Company in February 2021.

### Government grants (COVID-19)

During the year ended 30 June 2021 the Company received payments from the Australian Government amounting to \$37,500 (2020: \$50,000) as part of its 'Boosting Cash Flow for Employers' scheme in response to the Coronavirus ('COVID-19') pandemic.

Eligible employers with aggregated annual turnover of less than \$50 million were eligible to receive payments of between \$20,000 and \$100,000 which are credited against amounts owed on an activity statement and based on PAYG withheld on employee's salary and wages for the period March to September 2020. Such amounts have been recognised as government grants in the financial statements, are non-taxable, and are recorded as income once there is reasonable assurance that the Company will comply with any required conditions which is practically at the time that a liability for PAYG withholding tax is incurred and salaries are paid.

## Note 8. Expenses

	Group	
	2021 \$'000	2020 \$'000
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	72	48
Plant and equipment – production infrastructure	197	149
Other assets	52	23
Right-of-use asset	183	126
Total depreciation	504	346
<i>Amortisation</i>		
Software	23	12
Total amortisation	23	12
<b>Total depreciation and amortisation</b>	<b>527</b>	<b>358</b>

**Notes to the consolidated financial statements (continued)****Note 8. Expenses (continued)**

	Group	
	2021 \$'000	2020 \$'000
<i>Employee benefits expense</i>		
Wages and salaries	4,033	1,588
Superannuation expense	244	119
Employee leave provisions	195	151
Other Employee Expenses	291	–
<b>Total employee benefits expense</b>	<b>4,763</b>	<b>1,858</b>
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	1,136	1,242
Interest and finance charges paid/payable on lease liabilities	655	546
Fees on borrowings	999	218
<b>Finance costs expensed</b>	<b>2,790</b>	<b>2,006</b>
<i>Administration and operating expenses</i>		
Professional fees	2,449	928
Insurance	502	233
Rental and lease costs	532	138
Production and consumable and waste costs	627	286
Travel and vehicle costs	599	135
Research and development costs	230	80
Provision for expected credit losses	283	53
IPO transaction costs	1,418	–
Other	1,023	527
<b>Total administration and operating expenses</b>	<b>7,663</b>	<b>2,380</b>

## Note 9. Income tax

	Group	
	2021 \$'000	2020 \$'000
<b><i>Income tax benefit</i></b>		
Current tax		
Deferred tax – origination and reversal of temporary differences and tax losses	(3,147)	(1,855)
Aggregate income tax benefit	(3,147)	(1,855)
Deferred tax included in income tax benefit comprises:		
Increase in deferred tax assets	(5,167)	(2,098)
Increase in deferred tax liabilities	2,020	243
Deferred tax – origination and reversal of temporary differences	(3,147)	(1,855)
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(13,886)	(6,686)
Tax at the statutory rate of 26.0% (comparative rate 27.5%)	(3,610)	(1,839)
Cash flow boost payment	(10)	(17)
R&D expenditure non-deductible	289	149
R&D grant income non-assessable	(274)	(71)
Deferred tax on R&D grant income capitalised	–	(218)
Deferred tax on R&D expenditure reduction in tax base	192	221
Sundry items	266	(82)
	463	(16)
<b>Income tax benefit</b>	<b>(3,147)</b>	<b>(1,855)</b>

**Notes to the consolidated financial statements (continued)****Note 9. Income tax (continued)**

	Group	
	2021 \$'000	2020 \$'000
<i>Amounts credited directly to equity</i>		
Deferred tax assets	(1,020)	(151)
<b><i>Deferred tax asset</i></b>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	7,477	2,943
Property, plant and equipment	12	12
Right-of-use assets	211	69
Employee benefits	152	77
Provisions	169	81
Trade and other payables	322	68
Inventories	81	7
	8,424	3,257
Amounts recognised in equity:		
Capital raising costs	1,372	352
Deferred tax asset	9,796	3,609
Movements:		
Opening balance	3,609	1,360
Credited to profit or loss	5,167	2,098
Credited to equity	1,020	151
Closing balance	9,796	3,609

The value of unbooked tax losses at 30 June 2021 is \$1,052,000 (2020: \$1,052,000).

**Note 9. Income tax (continued)**

	Group	
	2021 \$'000	2020 \$'000
<b><i>Deferred tax liability</i></b>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	853	615
Biological asset	1,455	
Intangible assets	194	175
Amortisation of capital raising costs	376	129
Sundry	62	1
Deferred tax liability	2,940	920
Movements:		
Opening balance	920	677
Charged to profit or loss	2,020	243
Closing balance	2,940	920

	Group	
	2021 \$'000	2020 \$'000
<b><i>Net deferred tax asset</i></b>		
Deferred tax asset (per above)	9,796	3,609
Deferred tax liability (per above)	(2,940)	(920)
Deferred tax asset (as disclosed in the statement of financial position)	6,856	2,689

**Note 10. Cash and cash equivalents**

	Group	
	2021 \$'000	2020 \$'000
<i>Current assets</i>		
Cash at bank	9,467	1,656

Cash at bank earns interest at floating rates based on daily bank deposit rates.



**Notes to the consolidated financial statements (continued)****Note 11. Trade and other receivables**

	Group	
	2021 \$'000	2020 \$'000
<i>Current Assets</i>		
Trade Receivables	8,141	2,472
Less: Allowance for expected credit losses	(213)	(53)
	7,928	2,419
Other receivables	90	90
GST recoverable	–	93
	8,018	2,602

***Allowance for expected credit losses***

The Group has recognised a loss of \$283,000 (2020: \$53,120) in profit or loss in respect of the expected credit losses for the year ended 30 June 2021.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Group	Expected Credit Loss Rate		Carrying Amount		Allowance for Expected Credit Losses	
	2021 %	2020 %	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Not overdue	–	–	5,972	808	–	–
0 to 3 months overdue	–	8.5%	1,052	806	–	23
3 to 6 months overdue	8.9%	14.1%	338	858	30	30
Over 6 months overdue	23.5%	–	779	–	183	–
			8,141	2,472	213	53

Movements in the allowance for expected credit losses are as follows:

	Group	
	2021 \$'000	2020 \$'000
Opening balance	53	6
Additional provisions recognised	269	160
Receivables written off during the year as uncollectable	(109)	(113)
Closing Balance	213	53

## Note 12. Inventories

	Group	
	2021 \$'000	2020 \$'000
<i>Current Assets</i>		
Raw Materials	1,254	604
Intermediate Inventories	95	–
Maturing Inventories	5,982	2,471
Finished Goods	455	279
Less: Provision for impairment	(399)	(25)
	7,447	3,329

### *Intermediate inventories*

Intermediate inventories include produced vodka and agave as at 30 June 2021 that has yet to be packaged into finished goods.

### *Maturing inventories*

Maturing inventories include whisky in barrels and vats. As at 30 June 2021, the Group recorded \$5,126,000 (2020: \$1,090,000) of maturing inventories that are expected to be utilised after more than one year.

## Note 13. Other assets

	Group	
	2021 \$'000	2020 \$'000
<i>Current Assets</i>		
R&D grant income receivable	1,240	1,052
Prepaid expenses and other current assets	671	223
Deposits with suppliers	489	1,211
	2,400	2,486
<i>Non Current Assets</i>		
Security deposits	353	225

**Notes to the consolidated financial statements (continued)****Note 14. Property, Plant and Equipment**

	Group	
	2021 \$'000	2020 \$'000
<i>Non-current assets</i>		
Land – at cost	2,815	–
Leasehold improvements – at cost	1,698	1,185
Less: Accumulated depreciation	(127)	(55)
	1,571	1,130
Plant and equipment – production assets – at cost	14,913	14,905
Less: Accumulated depreciation	(623)	(151)
	14,290	14,754
Plant and equipment – production infrastructure – at cost	3,602	3,005
Less: Accumulated depreciation	(401)	(169)
	3,201	2,836
Plant and equipment – maturation assets – at cost	3,723	2,182
Less: Accumulated depreciation	(223)	(77)
	3,500	2,105
Other Assets – at cost	837	383
Less: Accumulated depreciation	(107)	(55)
	730	328
Assets under construction	1,120	–
	27,227	21,153

## Note 14. Property, Plant and Equipment (continued)

### Reconciliations

Reconciliations of the carrying values at the beginning and end of the current and previous financial year are set out below:

	Land	Leasehold Improve- ments	P&E – Production	P&E – Infra- structure	P&E – Maturation	Other assets	Assets Under Con- struction	Total
Balance at 1 July 2019	–	1,027	12,950	2,071	1,327	243	–	17,618
Additions	–	151	1,937	965	848	108	–	4,009
R&D Income Allocated	–	–	–	(37)	–	–	–	(37)
Depreciation Expense	–	(48)	(133)	(162)	(71)	(23)	–	(437)
Balance at 30 June 2020	–	1,130	14,754	2,837	2,104	328	–	21,153
Transfer in from ROUA <sup>1</sup>	2,815	–	–	–	–	–	–	2,815
Additions	–	513	7	597	1,542	454	1,120	4,233
R&D Income Allocated	–	–	–	–	–	–	–	–
Depreciation Expense	–	(72)	(471)	(233)	(146)	(52)	–	(974)
Balance at 30 June 2021	2,815	1,571	14,290	3,201	3,500	730	1,120	27,227

<sup>1</sup> The asset reclassification in FY21 of \$2,815,000 from Right-of-use assets (Note 15) reflects \$2,822,000 adjusted for final settlement costs.

### Assets under construction

The carrying amount of assets under construction relates to assets that have been paid for before year end, arrived on site during the year, but are yet to be commissioned for use as at 30 June 2021 inclusive of agave distillery and Welcome to Thornbury brand experience assets.

### Impairment testing

The carrying amount of non-current assets have been allocated to the Production, Brands and Agave CGUs. Refer to Note 17 for consideration of the Group's impairment testing as at 30 June 2021.

**Notes to the consolidated financial statements (continued)****Note 15. Right-of-use assets**

	Group	
	2021 \$'000	2020 \$'000
<i>Non-Current Assets</i>		
Land	–	2,822
Equipment	307	–
Less: Accumulated Depreciation	(44)	–
	263	–
Buildings	6,501	5,183
Less: Accumulated Depreciation	(418)	(469)
	6,083	4,714
	6,346	7,536

On 16 December 2019, the Group entered into lease and purchase agreements for the Eden Lassie agave farm in The Whitsundays region of Queensland totalling \$2.8 million. The lease term was for twelve months and expired in December 2020, at which point the land was acquired by the Group with a final payment of \$2.2 million and transferred from right-of-use assets to property, plant and equipment.

On 11 February 2021, the Group executed a property lease agreement providing the Group with a second whisky maturation facility in Somerton, Melbourne, Victoria. The initial term of the lease agreement is for three years with options for a further two terms of five years each.

The Group leases buildings for its offices and warehouses under agreements of between three to five years with, and in all cases, options to extend have been taken up as part of determining the right-of-use asset and lease liabilities associated with buildings. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

During the year ended 30 June 2021 the Group has leased equipment for use at the Eden Lassie agave farm.

**Reconciliations**

Reconciliations of the carrying values at the beginning and end of the current and previous financial year are set out below:

Group	Land \$'000	Buildings \$'000	Equipment \$'000	Total \$'000
Balance at 1 July 2019	–	2,600	–	2,600
Additions	2,822	2,481	–	5,303
Depreciation Expense	–	(367)	–	(367)
Balance at 30 June 2020	2,822	4,714	–	7,536
Additions	–	1,787	307	2,094
Transfer out to PPE	(2,822)	–	–	(2,822)
Depreciation Expense	–	(418)	(44)	(462)
Balance at 30 June 2021	–	6,083	263	6,346

## Note 15. Right-of-use assets (continued)

For other AASB 16 and lease related disclosures, refer to the following:

- Refer note 8 for details of interest on lease liabilities and other lease payments;
- Refer note 21 for lease liabilities and maturity analysis at 30 June 2021; and
- Refer consolidated statement of cash flows for repayment of lease liabilities.

## Note 16. Intangible assets

	Group	
	2021 \$'000	2020 \$'000
<i>Non Current Assets</i>		
Intellectual property – at cost	1,259	1,024
Less: Accumulated amortisation	(67)	(67)
	1,192	957
Trademarks – at cost	675	459
Software – at cost	214	205
Less: Accumulated amortisation	(41)	(18)
	173	187
	2,040	1,603

Trademarks are renewable indefinitely in all of the major markets where they are registered. There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of these trademarks. The nature of the industry is that obsolescence is not a common issue, with indefinite brand lives being commonplace. Accordingly, the Group believe that it is appropriate that the trademarks are treated as having indefinite lives for accounting purposes and are therefore not amortised.

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Intellectual Property	Trademarks	Software	Total
Balance at 1 July 2019	415	413	142	970
Additions	910	46	57	1,013
R&D income allocated	(368)	–	–	(368)
Depreciation Expense	–	–	(12)	(12)
Balance at 30 June 2020	957	459	187	1,603
Additions	465	216	9	689
R&D income allocated	(229)	–	–	(229)
Depreciation Expense	–	–	(23)	(23)
Balance at 30 June 2021	1,192	675	173	2,040

## Notes to the consolidated financial statements (continued)

### Note 17. Impairment testing

The carrying amount of the Group's property, plant and equipment and intangible assets have been allocated to the Production, Brands and Agave CGUs.

The Group has used the following assumptions in determining the recoverable amount of our CGU's:

	Production	Brands	Agave
Discount rate	10.0%	10.0%	10.0%
Terminal value growth rate	10.0%	10.0%	10.0%

Discount rate represents the pre-tax discount rate applied to the cash flow projections (2020: 13.4%). The discount rate reflects the market determined, risk-adjusted discount rate that is adjusted for specific risks relating to the CGU.

Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five-year forecast period (2020: nil%). These growth rates are based on the Group's expectation of the CGUs' long-term performance in their markets.

Sensitivity analysis also examined the effect of a change in key assumption on the CGUs. The discount rate would need to increase by 7.0% before the recoverable amount of any of the CGUs would equal its carrying value. No other changes in key assumptions will result in a material impairment charge for any of the CGUs.

### Note 18. Biological assets

	Group	
	2021 \$'000	2020 \$'000
<i>Non-current assets</i>		
Agave plants – at fair value	7,673	729

Agave plants growing in the ground or nursery are accounted for as biological assets until the point of harvest. Biological assets are measured on initial recognition at the end of each reporting period at fair value less costs to sell. Changes in the fair value of growing plants are recognised in the profit or loss as other income. Costs related to growing the plants and harvesting are capitalised into the carrying value in the statement of financial position. At the time of harvest, agave plants (pina) are measured at fair value less costs to sell and transferred to inventories.

#### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Group	Agave plants \$'000
Balance at 1 July 2019	44
Expenditure	685
Balance at 30 June 2020	729
Expenditure	1,703
R&D income allocated	(355)
Fair value gain during the financial year ended 30 June 2021	5,596
Balance at 30 June 2021	7,673



## Note 18. Biological assets (continued)

The Group has determined the fair value less costs to sell of the 282,000 plants in ground as at 30 June 2021 with reference to the following assumptions:

- an in-ground growing cycle of 3.5 years from planting date with the pina weight of a harvested plant of 28.0 kilograms;
- a conversion ratio of 7.5 kilograms of pina to 1.0 litre of agave spirit (at 43.0% alcohol to volume (ABV))
- anticipated farm operating, freight, processing, packaging and selling costs
- anticipated net sales price per agave spirit litre of \$36.2 (at 43.0% ABV)
- discount rate of 10.0%
- risk factor of 30.0%

The Group has determined that cost is a reasonable estimate of fair value less costs to sell of plant stock in nursery as at 30 June 2021 (233,000 plants valued at \$707,000).

### Valuation techniques and significant unobservable inputs

The fair valuation of agricultural produce is Level 3 in accordance with the fair value hierarchy, being substantially comprised of inputs to the agricultural produce that are not based on observable market data.

Type	Description	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Harvested own grown inventory Agave pina	The agave pina is harvested by extracting the agave plant and removal of leaf and root matter.	Discounted cash flows: <ul style="list-style-type: none"> <li>• The valuation model considers the present value of the net cash flows expected to be generated by the agave plants in ground as at 30 June 2021.</li> </ul>	Inclusive of: <ul style="list-style-type: none"> <li>• Estimated farming, harvest, processing, transportation and selling costs</li> <li>• Estimated plant size and pina yield</li> <li>• Estimated future selling price of agave spirit</li> <li>• Risk adjustment factors.</li> </ul>	The estimated fair value would increase/(decrease) if: <ul style="list-style-type: none"> <li>• the estimated farming, harvest, processing, transportation and selling costs were lower (higher);</li> <li>• the estimated plant size and pina yield was higher (lower);</li> <li>• the estimated future sales price of agave spirit was higher (lower); or</li> <li>• the risk adjustment factors were lower (higher).</li> </ul>

### Asset security

The Group's agave plants are pledged as security for the Group's secure financing facility with Longreach Credit.

**Notes to the consolidated financial statements (continued)****Note 19. Trade and other payables**

	Group	
	2021 \$'000	2020 \$'000
<i>Current liabilities</i>		
Trade payables	9,400	4,163
GST	100	–
Accrued expenses and employee related payables	2,410	854
	–	194
Customer deposits received in advance	11,910	5,211

Refer to note 26 for further information on financial instruments.

**Note 20. Borrowings**

	Group	
	2021 \$'000	2020 \$'000
<i>Current liabilities</i>		
Related party payables	–	1,695
<i>Non-current liabilities</i>		
Loan from Longreach Direct Lending Fund – interest bearing	15,000	10,000
Loan from Ankara Holdings Pty Ltd – interest bearing	–	1,820
Loan from Hydraservice Hydraulic Hardware Australia Pty Ltd – interest bearing	–	338
Loan from Glankara Super Fund – interest bearing	–	692
Borrowing costs	(123)	(43)
	14,877	12,807

Refer to note 25 for further information on financial instruments.

**Financing Facility with Longreach Direct Lending Fund**

On 3 December 2020, Top Shelf International Holdings Ltd entered into a Secured Borrowing Base Term Bilateral Facility Agreement with the agreement arranged by Longreach Credit Investors Pty Ltd with AMAL Trustees Pty Ltd as trustee for the Longreach Direct Lending Fund.

The interest rate is 7.25% provided the market capitalisation of Top Shelf exceeds \$75.0 million. The alternative interest rate is 10.0%. The facility matures on 15 December 2023 and accordingly has been classified as a non-current liability.

As at 31 December 2020, the facility limit was \$9.0 million increasing monthly by \$1.0 million to a maximum of \$15.0 million determined by the assessable borrowing base. The borrowing base is defined as the aggregate value of trade receivables, present value of maturing inventories, an agreed valuation of oak and vat storage assets, less 12 months of lease costs of inventory of the inventory storage facility, vested employee entitlements, outstanding excise tax payable and a \$1.0 million cost buffer.

## Note 20. Borrowings (continued)

As at 30 June 2021, the facility was drawn to its maximum limit of \$15.0 million.

The facility agreement has a minimum cash balance financial covenant to the equivalent of a cash balance greater than the sum of 12 month forecast net loss before tax and 12 month forecast cash outflows from investing activities.

### *Financing Facility Extension*

On 26 August 2021, the Company executed a credit approved term sheet with Longreach Credit extending the secured financing facility agreement limit to \$25.0 million. The facility extension structuring fee is \$1,150,000.

The updated borrowing base as set out in the term sheet has been expanded to include the present value of the Group's agave plant assets.

The other terms and conditions of the facility remain unchanged inclusive of the interest rate and maturity date.

The facility may be drawn to \$22.3 million upon transaction completion extending on a monthly basis to \$25.0 million four months from transaction completion.

The term sheet specifies a number of conditions precedent prior to completion of the associated finance documentation inclusive of the satisfactory insurance coverage of the Eden Lassie agave farm and agave plants and other conditions considered common for a transaction of this nature.

The Group expects to complete the facility extension transaction by 30 September 2021.

### *Pre-existing Financing Facility with Longreach Direct Lending Fund*

With the funds raised from the Group's initial public offering, on 18 December 2020, Top Shelf International Holdings Ltd made a utilisation request under the existing borrowing agreement (\$10.0 million) for early termination. This was granted resulting in payout of the existing facility in addition to a cessation fee of \$930,000.

The settlement of the pre-existing financing facility of \$10.0 million and commencement of the new financing facility of \$7.0 million was undertaken with Longreach Credit on a net basis in December 2020 as presented in the consolidated statement of cash flows in these financial statements.

### *Loans from related parties*

During the year ended 30 June 2021, all loans from related parties were either settled with the funds raised from the initial public offering or converted to issued capital at the date of the initial public offering in December 2020.

### *Total secured liabilities*

The total secured liabilities are as follows:

	Group	
	2021 \$'000	2020 \$'000
Loan from Ankara Holdings Pty Ltd – non current	–	1,820
Loan from Longreach Direct Lending Fund – non-current	15,000	10,000
	15,000	11,820

### *Assets pledged as security*

The Group's tangible assets are pledged as security with the secured financing facility with Longreach Direct Lending Fund.

## Notes to the consolidated financial statements (continued)

### Note 20. Borrowings (continued)

#### Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Group	
	2021 \$'000	2020 \$'000
Total facilities		
Loan from Longreach Direct Lending Fund	15,000	10,000
Loan from Ankara Holdings Pty Ltd – non-current	–	1,820
	15,000	11,820
Used at the reporting date		
Loan from Longreach Direct Lending Fund	15,000	10,000
Loan from Ankara Holdings Pty Ltd – non-current	–	1,820
	15,000	11,820
Unused at the reporting date		
Loan from Ankara Holdings Pty Ltd – non-current	–	–
Loan from Longreach Direct Lending Fund	–	–

### Note 21. Lease liabilities

	Group	
	2021 \$'000	2020 \$'000
<i>Current liabilities</i>		
Lease liability – land	–	2,205
Lease liability – buildings	870	616
Lease liability – equipment	63	616
	933	2,821
<i>Non-current liabilities</i>		
Lease liability – buildings	5,812	4,347
Lease liability – equipment	174	–
	5,986	–

In December 2020, the Group finalised the acquisition of the Eden Lassie agave farm in The Whitsundays region of Queensland.

## Note 21. Lease liabilities (continued)

### Maturity analysis

The maturity analysis of lease liabilities is as follows:

	Group	
	2021 \$'000	2020 \$'000
<b>Maturity Analysis – contractual undiscounted cash flows</b>		
Less than one year	933	2,821
One to five years	4,947	3,386
More than five years	7,749	6,753
Total undiscounted lease liabilities at 30 June	13,629	12,960
<b>Lease liabilities included in the statement of financial position</b>		
Lease liabilities included in the statement of financial position at 30 June	6,920	7,168
Represented by:		
Lease liabilities – current	933	2,821
Lease liabilities – non-current	5,987	4,347
	6,920	7,168

## Note 22. Employee benefits

	Group	
	2021 \$'000	2020 \$'000
<i>Current liabilities</i>		
Annual leave	409	220
<i>Non-current liabilities</i>		
Long service leave	15	7

**Notes to the consolidated financial statements (continued)****Note 23. Other provisions**

	Group	
	2021 \$'000	2020 \$'000
<i>Non-current liabilities</i>		
Lease make good	309	295

***Lease make good***

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

***Movements in provisions***

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Group – 2021	Lease make good \$'000
Carrying amount at the start of the year	295
Additional provisions recognised	8
Amounts used	–
Payments	–
Unwinding of discount	6
Unused amounts reversed	–
Carrying amount at the end of the year	309

**Note 24. Issued capital**

	Group			
	2021 Shares	2020 Shares	2021 \$'000	2020 \$'000
Ordinary shares – fully paid	49,713,086	8,172	65,025	27,499
Ordinary shares – unpaid	–	8	–	48
Share issue transaction costs, net of tax	–	–	(2,575)	(926)
	49,713,086	8,180	62,450	26,621

## Note 24. Issued capital (continued)

### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2019	6,363		13,733
Issue of shares	23 July 2019	619	\$7,643	4,731
Issue of shares to directors*	29 July 2019	195	\$0	661
Issue of shares	31 August 2019	242	\$7,643	1,850
Issue of shares	30 September 2019	113	\$7,643	864
Issue of shares	31 October 2019	12	\$7,643	92
Issue of shares	30 June 2020	636	\$8,000	5,088
Share issue transaction costs, net of tax		–	\$0	(398)
Balance	30 June 2020	8,180		26,621
Opening balance adjustment – issue of shares 23 July 2019	30 June 2020	–		41
Issue of shares	31 July 2020	53	\$8,000	424
Issue of shares	31 August 2020	16	\$8,000	128
Issue of shares to directors	8 September 2020	48	\$8,000	384
Issue of shares	9 September 2020	50	\$8,000	400
Share split	10 November 2020	32,945,609	\$0	–
Issue of shares upon IPO	7 December 2020	15,837,104	\$2.21	34,939
Issue of shares upon IPO – under priority offer	7 December 2020	32,452	\$1.88	61
Issue of shares upon IPO to select employees	7 December 2020	12,204	\$2.21	27
Conversion of related party borrowings	7 December 2020	904,977	\$2.21	2,000
Share issue transaction costs, net of tax		–	\$0.00	(2,575)
Balance	30 June 2021	49,713,086		62,450

\* These shares were issued over multiple financial periods which were issued with an average weighted price of \$3,391.

### Initial public offering – December 2020

As part of the Company's initial public offering in December 2020, the Company received proceeds from the initial public offering of \$47.2 million of which \$35.0 million represented capital raised by the Company and a further \$12.2 million represented existing ordinary shares sold into the initial public offering by selling shareholders.

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.



## Notes to the consolidated financial statements (continued)

### Note 24. Issued capital (continued)

#### *Share buy-back*

There is no current on-market share buy-back.

#### *Capital risk management*

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 2020 report.

### Note 25. Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

### Note 26. Financial instruments

#### *Financial risk management objectives*

The Group's activities expose it to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

The Group is exposed to risks arising from environmental changes as well as the financial risk in respect of agricultural activities.

The primary financial risk associated with the Group's agricultural activity occurs due to the length of time between expending cash on the purchase, or planting and maintenance of agave plants, harvesting the plants and making the spirit, to receiving cash from the sale of spirits to third parties. The Group's strategy to manage this financial risk is to actively review and manage working capital requirements, along with consultation with Agricultural experts.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

#### *Market risk*

##### *Interest rate risk*

The Group's secured financing facility with Longreach Credit has a fixed interest rate of 7.25% subject to the Group's market capitalisation being above \$75.0 million (otherwise the fixed interest rate is 10.0%).

## Note 26. Financial instruments (continued)

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

### Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. As described in Note 2 Going Concern, the Group does have cash preservation and efficiency actions available to implement if and when required.

### Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate	1 year or less	Between 1 and 5 years	Over 5 years	Remaining contractual maturities
Group 2021	%	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>					
Non-interest bearing					
Trade and other payables	–	11,910	–	–	11,910
Interest-bearing – fixed					
Lease liability – buildings	12%	870	4,764	7,749	13,383
Lease liability – equipment	1.60%	63	183	–	246
<i>Interest-bearing – fixed rate</i>					
Loan with Longreach Direct Lending Fund	7.25%	–	15,000	–	15,000
Total non-derivatives		12,843	19,947	7,749	40,539

**Notes to the consolidated financial statements (continued)****Note 26. Financial instruments (continued)**

	Weighted average interest rate	1 year or less	Between 1 and 5 years	Over 5 years	Remaining contractual maturities
Group 2020	%	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade and other payables	–	5,211	–	–	5,212
Lease liability – land	–	2,205	–	–	2,205
<i>Interest-bearing – fixed</i>					
Lease liability – buildings	12.00%	616	3,386	6,753	10,755
<i>Interest-bearing – fixed rate</i>					
Loan with Ankara Holdings Pty Ltd	16.10%	–	1,820	–	1,820
Loan with Longreach Direct Lending Fund	7.78%	–	10,000	–	10,000
Loan with Hydraservice Hardware Australia	1.25%	–	338	–	338
Loan with Glankara Super Fund	3.82%	–	692	–	692
Other related party loans	6.81%	1,695	–	–	1,695
Total non-derivatives		9,727	16,236	6,753	32,717

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

**Note 27. Fair value measurement**

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

The Group's biological assets are classified as Level 3 with reference to the fair value hierarchy.

The fair value measurements of the Group stated above refer to the fair value hierarchy. These include:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level one that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between level during the year ended 30 June 2021 (2020: nil).

## Note 28. Key management personnel disclosures

### Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Group	
	2021 \$	2020 \$
Short-term employee benefit	411,254	497,375
Post-employment benefits	35,852	–
Long-term benefits		–
Termination benefits		–
Share-based payments	866,167	–
	1,313,273	497,375

	Group		Group	
	2021 Shares	2020 Shares	2021 \$	2020 \$
Equity contributions	–	465	–	3,615,756

## Note 29. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Company:

	Group	
	2021 \$	2020 \$
Audit services – Ernst & Young		
Category 1: Audit or review of the financial statements	545,000	145,950
Category 3: Investigating Accountant services in relation to the Company's IPO	484,000	–
Category 4: Tax advisory services in relation to the Company's IPO	140,000	–
Category 4: Other services	5,000	–
Total	1,174,000	145,950

## Note 30. Contingent liabilities

The Group has given bank guarantees as at 30 June 2021 of \$375,000 (2020: \$225,000) to various landlords.

## Notes to the consolidated financial statements (continued)

### Note 31. Related party transactions

#### Parent entity

Top Shelf International Holdings Ltd is the parent entity.

#### Subsidiaries

Interests in subsidiaries are set out in note 32.

#### Key management personnel

Disclosures relating to key management personnel are set out in note 27 and the remuneration report included in the directors' report.

#### Receivable from related parties

There were no trade receivables from related parties at the current and previous reporting date.

#### Loans to/from and payables to related parties

The following balances are outstanding at the reporting date in relation to loans and payables with related parties:

	Group	
	2021 \$	2020 \$
Current Borrowings:		
Loan from Fairchild Advisory Pty Ltd, a director related entity associated with Drew Fairchild	–	1,396,517
Loan from DanDrewFairchild Pty Ltd, a director related entity associated with Drew Fairchild	–	121,809
Loan from an employee – Bill Batsilas	–	177,000
Non-current borrowings:		
Loan from Ankara Holdings, a director related entity associated with Adem Karafili	–	1,820,000
Loan from Glankara Super Fund, a director related entity associated with Adem Karafili	–	692,420
Loan from Hydraservice Hydraulic Hardware Australia Pty Ltd, an entity associated with an employee	–	337,750

#### Terms and conditions

All loan transactions were made on normal commercial terms and conditions and at market rates. All related party payable transactions are interest free.

## Note 32. Parent entity information

Set out below is the supplementary information about the parent entity.

### Statement of profit or loss and other comprehensive income

	Parent	
	2021 \$'000	2020 \$'000
Loss after income tax	(4,561)	(463)
Total comprehensive income	(4,561)	(463)

### Statement of financial position

	Parent	
	2021 \$'000	2020 \$'000
Total current assets	10,700	2,747
Total assets	74,739	41,522
Total current liabilities	727	2,358
Total liabilities	15,727	15,522
Net assets	59,012	26,000
Equity		
Issued capital	62,450	26,621
Options reserve	1,693	–
Accumulated losses	(5,131)	(621)
Total equity	59,012	26,000

The Group have concluded that the total assets of the parent entity is not impaired on that basis that the recent equity raising is a proxy for fair value of investments in subsidiaries.

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity has guarantees in relation to the debts of its subsidiaries as at 30 June 2021 and 30 June 2020.

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

### Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

## Notes to the consolidated financial statements (continued)

### Note 32. Parent entity information (continued)

#### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity.

### Note 33. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business/ Country of incorporation	Ownership interest	
		2021 %	2020 %
Top Shelf International Packaging Pty Ltd	Australia	100%	100%
Top Shelf International Brands Pty Ltd	Australia	100%	100%
Top Shelf International Pty Ltd	Australia	100%	100%

### Note 34. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Top Shelf International Holdings Ltd

Top Shelf International Packaging Pty Ltd

Top Shelf International Brands Pty Ltd

Top Shelf International Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Top Shelf International Holdings Ltd, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position are substantially the same as the Group and therefore have not been separately disclosed.

## Note 35. Cash flow information

### Reconciliation of loss after income tax to net cash used in operating activities

	Group	
	2021 \$'000	2020 \$'000
Loss after income tax benefit for the year	(10,739)	(4,831)
Adjustments for:		
Depreciation and amortisation	778	815
Finance costs	2,790	2,006
Fair value gain on biological assets		(5,596)
Share based payments	2,104	–
IPO transaction costs	1,418	–
Other non-cash items	–	(24)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(5,375)	(1,364)
Increase in inventories	(3,578)	(2,759)
Increase in net deferred tax assets	(3,147)	(1,855)
Increase in other assets	(169)	(567)
Increase in trade and other payables	6,522	3,327
Increase in employee benefits	195	152
Net cash used in operating activities	(14,796)	(5,100)

### Non-cash investing and financing activities

	Group	
	2021 \$'000	2020 \$'000
Additions to the right-of-use assets (buildings and equipment)	1,999	5,062
Additions to the lease make good provision	(8)	–
Shares issued under employee share plan	384	–
Shares issued on conversion of loan	2,000	–
	4,375	5,062



**Notes to the consolidated financial statements (continued)****Note 35. Cash flow information (continued)***Changes in liabilities arising from financing activities*

Group	Borrowings – related party \$'000	Borrowings – external financier \$'000	Lease liabilities – land \$'000	Lease liabilities – buildings & equipment \$'000	Total \$'000
Balance at 1 July 2019	4,199	3,946	–	2,584	10,729
Additions	1,208	6,100	2,697	2,944	12,949
Repayments of principal	(904)	(46)	(492)	(35)	(1,477)
Other	–	–	–	(529)	(529)
Balance at 30 June 2020	4,503	10,000	2,205	4,964	21,672
Additions	2,458	5,000	–	2,094	9,552
Repayments of principal	(4,961)	(123)	(2,205)	(76)	(4,907)
Other – Conversion to issued capital	(2,000)	–	–	–	(2,000)
Balance at 30 June 2021	–	14,877	–	7,200	21,859

**Note 36. Earnings per share**

	Group	
	2021 \$'000	2020 \$'000
Loss after income tax attributable to the owners of Top Shelf International Holdings Ltd	(10,739)	(4,831)
	Number	
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share <sup>1</sup>	49,713,086	29,297,502
Weighted average number of ordinary shares used in calculating diluted earnings per share <sup>2</sup>	49,713,086	29,297,502
	Cents	
	Cents	Cents
Basic earnings per share	(25.38)	(16.49)
Diluted earnings per share	(25.38)	(16.49)

<sup>1</sup> Shares have been stated as though the share split had been in place since inception.

<sup>2</sup> Options are excluded from the above calculation as their inclusion would be anti-dilutive.

## Note 37. Share-based payments

### *Initial option offer – October 2020*

In October 2020, 6,395,760 share options were granted to directors and employees as part of an initial option offer in accordance with the terms of the Group's Long Term Incentive Plan ('LTIP'). The purpose of the initial option offer is to reward key individuals for their contribution to the Group and performance prior to the Group's initial public offering in December 2020 and to align their interests with the interests of the Group and shareholders.

In accordance with the terms of the LTIP, participants in the initial option offer were offered:

- Start-up options, being options which cannot be disposed by the participant until the third anniversary from the date of grant or until the participant ceases employment with the Group; and/or
- Premium priced options, being options with an exercise price set at a 70% premium to the value of the underlying shares at the time of grant.

As part of the initial option offer, 2,202,984 Start-up options and 4,192,776 Premium priced options were issued. The exercise price for each form of option was \$2.026 and \$3.445 respectively.

As the exercise price of Premium priced options is significantly above the Company's initial public offering listing price of \$2.21, the Company considers it likely that some or all participants holding vested Premium priced options may request to cancel those options in exchange for being issued a number of shares equal to the market value of a share on the date of cancellation minus the exercise price, in accordance with the rules of the Company's LTIP.

A portion of the Start-up and Premium priced options granted to participants under the initial option offer vested upon grant date (Tranche 1). The balance of the Start-up and Premium priced options are subject to vesting conditions (Tranche 2).

The options granted to participants under the initial option offer which are subject to vesting conditions are subject to:

- A service based vesting condition, such that one third of the options will vest on each anniversary from the date of grant for three years;
- A performance-based vesting condition which is linked to the share price growth achieved by the Group based on the 5 day VWAP immediately prior to the 3rd anniversary of the grant of the options; and
- Two further performance based vesting conditions linked to the performance of both the Group (based on the Group achieving the forecast revenue for the financial year ended 30 June 2021 ('FY21')) and the participant's individual performance in FY21.

The options are due to expire the 6th anniversary of the grant date and have been valued at fair value. There is no cash settlement of the options.

The fair value of options for the Start-up and Premium priced options granted during the year ended 30 June 2020 was estimated on the date of grant using the following assumptions:

- Dividend yield (%) – 0.00%
- Expected volatility (%) – 40%
- Risk-free interest rate (%) – 0.27%
- Expected life of share options (years) – 6 years
- Weighted average share price (\$) – 2.026

The fair value of the Start-up and Premium priced options recognised for accounting purposes in accordance with AASB 2 *Share Based Payments* is as follows:

Start-up options:

- Tranche 1: \$0.447
- Tranche 2: \$0.403

Premium priced options:

- Tranche 1: \$0.175
- Tranche 2: \$0.244

## Notes to the consolidated financial statements (continued)

### Note 37. Share-based payments (continued)

#### Option offer – June 2021

The Group granted 286,757 share options to employees who joined the Company subsequent to the IPO in December 2020 in relation to the year ended 30 June 2021 in accordance with the terms of the LTIP. The options were issued under the same conditions and basis as the share options granted in October 2020.

The Group granted 1,250,658 share options to four executives as sign on bonuses in June 2021. The vesting condition of these options is a service period of either 12 or 36 months. Otherwise, the options were issued under the same conditions and basis as the share options granted in October 2020 and in accordance with the terms of the LTIP.

#### Non executive director initial option offer

The Group granted 81,447 share options to the non executive directors in the year ended 30 June 2021 determined by the value of foregone board fees. These share options reflected a zero exercise price and vested monthly over the course of the year.

#### Share option reconciliation

Share option offer	Exercise price	Options outstanding at 1 July 2020	Options granted during FY21	Options outstanding at 30 June 2021	Options exercisable at 30 June 2021
Initial option offer – tranche 1 – start up options	\$2.026	–	1,772,652	–	1,772,652
Initial option offer – tranche 1 – premium priced options	\$3.445	–	2,716,224	–	2,716,224
Initial option offer – tranche 2 – start up options	\$2.026	–	430,332	430,332	–
Initial option offer – tranche 2 – premium priced options	\$3.445	–	1,476,552	1,476,552	–
June 2021 option offer – start up options	\$2.026	–	439,139	439,139	–
June 2021 option offer – premium priced options	\$3.445	–	1,098,276	1,098,276	–
Non executive director initial option offer	\$nil	–	81,447	–	81,447
<b>Total</b>			<b>8,014,622</b>	<b>3,444,299</b>	<b>4,570,323</b>

#### Share based payment expense

For the year ended 30 June 2021, the Group recognised \$1,693,000 of share-based payment expense in relation to the plan in the statement of profit and loss being the fair value at grant date (2020: \$nil).

#### Pre initial public offering share based payment

In addition to the option offers summarised above, select directors and employees were issued a total of 48 ordinary shares at nil cash consideration in the Company prior to the initial public offering to the value of \$384,000, which has been recognised as a share based payment by the Group.

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### **Note 38. Events after the reporting period**

On 26 August 2021, the Company executed a credit approved term sheet with Longreach Credit extending the secured financing facility agreement limit to \$25.0 million. The updated borrowing base as set out in the term sheet has been expanded to include the present value of the Group's agave plant assets. The term sheet specifies a number of conditions precedent prior to completion of the associated finance documentation. The Group expects to complete the facility extension transaction by 30 September 2021. Details of the term sheet are provided in note 20 of this report.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

# Directors' declaration

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In the directors' opinion:

the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 33 to the financial statements.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



**Drew Fairchild**  
Chief Executive Officer

27 August 2021

Melbourne



**Adem Karafili**  
Chairman

# Independent auditor's report

## to the members of Top Shelf International Holdings Ltd



8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777  
ey.com/au

### Independent auditor's report to the members of Top Shelf International Holdings Ltd

#### Report on the audit of the financial report

##### Opinion

We have audited the financial report of Top Shelf International Holdings Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2021 and of its consolidated financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

##### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## Independent auditor's report (continued)



### Valuation of biological assets

Why significant	How our audit addressed the key audit matter
<p>As at 30 June 2021, the biological assets of the Group amounted to \$7.7 million.</p> <p>These biological assets are stated at fair value less costs to sell in accordance with AASB 141 Agriculture and the application of AASB 13 Fair Value Measurement principles.</p> <p>The fair value of the group's biological assets is calculated as the present value of future cash flows before tax and is classified as a Level 3 valuation as defined in AASB 13. The valuation process is complex since a quoted price in an active market does not exist for these assets. As a result, biological assets are valued based on the present value of future cash flows. Key assumptions are selling price, yield and discount rate which all include a high degree of estimation by the company.</p>	<p>With the assistance of our valuation specialists, our procedures in relation to the Group's biological asset valuation included:</p> <ul style="list-style-type: none"> <li>▶ Assessed the appropriateness of the application of valuation practices</li> <li>▶ Evaluated key assumptions underpinning cash flow calculations (including harvesting date, conversion rate, future prices and margin)</li> <li>▶ Assessed discount rate ("WACC") assumptions and other market/comparison data</li> <li>▶ Challenged outcomes based on assumptions used by performing sensitivity analysis on key estimates.</li> <li>▶ Evaluated disclosures provided in Note 17 <i>Biological Assets</i> in the consolidated financial report (specifically with regards to disclosure of the assumptions that are the most sensitive to change in calculating the fair value of the biological assets).</li> </ul>

### Going Concern

Why significant	How our audit addressed the key audit matter
<p>The consolidated financial statements have been prepared on a going concern basis. The Group incurred a loss of \$9.8 million during the year. As at 30 June 2021, accumulated losses of the Group totalled \$19.8 million.</p> <p>The availability of sufficient cash flows/funding is critical to the ongoing viability of the business and, as such, was a significant aspect of our audit.</p> <p>The Group has prepared a cash flow forecast which involves judgements and estimations based on management's view of business operations, expected growth and market conditions.</p>	<p>Our procedures in relation to the Group's going concern assessment included:</p> <ul style="list-style-type: none"> <li>▶ Evaluated the reasonableness of the inputs and assumptions used in the cash flow forecast by comparison against historical performance, current economic and industry indicators, publicly available information and the Group's strategic plans.</li> <li>▶ Challenged the key assumptions including those relating to revenue growth and the timing of significant payments in the cash flow forecast for the twelve-month period ending 31 August 2022</li> <li>▶ Assessed the availability of credit facilities (including extension of credit facilities post year-end)</li> <li>▶ Evaluated disclosures provided in Note 2 <i>Going Concern</i> in the consolidated financial report.</li> </ul>

### Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2021 annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.



If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.]

#### **Responsibilities of the directors for the financial report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



## Independent auditor's report (continued)



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on the audit of the Remuneration Report

#### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 23 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Top Shelf International Holdings Ltd for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

#### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Brett Croft  
Partner  
Melbourne  
27 August 2021

# Shareholder information

The shareholder information set out below was applicable as at 27 August 2021.

## Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	147	0.15	–	–
1,001 to 5,000	327	2.01	–	–
5,001 to 10,000	194	3.13	4	0.31
10,001 to 100,000	312	16.97	42	16.89
100,001 and over	70	77.74	21	82.97
	1,050	100.00	67	100.00
Holding less than a marketable parcel	–	–	–	–

## Shareholder information (continued)

### Equity security holders

#### *Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
National Nominees Limited	4,510,118	9%
CS Third Nominees Pty Limited	3,171,693	6%
Ankara Holdings Pty Ltd	1,959,416	4%
Fairchild Advisory Pty Ltd	1,875,300	4%
Sandhurst Trustees Ltd	1,817,515	4%
Wee Dram Ltd	1,350,216	3%
Jason Redfern	1,330,476	3%
HSBC Custody Nominees	1,150,347	2%
Quality Life Pty Ltd	1,054,116	2%
Dreaver Investments Australia	1,004,166	2%
Glankara Investments Pty Ltd	992,156	2%
Dempsey Capital Pty Ltd	963,312	2%
Dandrewfairchild Pty Ltd	780,172	2%
Baggio Investments Pty Ltd	773,808	2%
Platform 77 Pty Ltd	702,744	1%
Peter Cudlipp & Sarah Cudlipp	639,576	1%
Thomas Fairchild	639,576	1%
J P Morgan Nominees Australia Pty Ltd	639,315	1%
Mr Michael Hennessy & Mrs Angela Hennessy	588,252	1%
M&S Sky leisure Pty Limited	536,928	1%
	26,479,202	53%

#### *Unquoted equity securities*

	Number on issue	Number of holders
Options over ordinary shares issued	10,076,576	67

The following persons hold 20% or more of unquoted equity securities:

## Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
National Nominees Limited	4,510,118	9%
CS Third Nominees Pty Limited	3,171,693	6%
Ankara Holdings Pty Ltd	1,959,416	4%
Fairchild Advisory Pty Ltd	1,875,300	4%
Glankara Investments Pty Ltd	992,156	2%
Dandrewfairchild Pty Ltd	780,172	2%

## Voting rights

The voting rights attached to ordinary shares are set out below:

### Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

## Restricted securities

Class	Expiry date	Number of shares
Ordinary shares	24 months from quotation of Top Shelf's shares on ASX	6,822,144
Ordinary shares	8 September 2021	39,480
Options over ordinary shares	24 months from quotation of Top Shelf's shares on ASX	4,246,587
		11,108,211

**Shareholder information (continued)****Securities subject to voluntary escrow**

Class	Expiry date	Number of shares
Ordinary shares	Close of trading on ASX on the day the announcement to the ASX of Top Shelf's unaudited financial results for the financial year ending 30 June 2021.	13,066,348
Ordinary shares	Close of trading on ASX on the day the announcement to the ASX of Top Shelf's unaudited financial results for the financial half-year ending 31 December 2021.	1,678,342
Ordinary shares	A period of three years from the date of completion or the date on which the eligible person ceases to be employed by Top Shelf (whichever is earlier).	44,656
		14,789,346

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# Corporate directory

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## Directors

Adem Karafili – *Executive Chairman*  
Drew Fairchild – *Chief Executive Officer*  
Peter Cudlipp  
Michael East  
Ken Poutakidis

## Company secretary

Kim Graves

## Registered office

16-18 National Boulevard  
Campbellfield VIC 3061  
Telephone: +61 3 8317 9990

## Share register

### Boardroom Pty Limited

Level 12  
225 George Street  
Sydney NSW 2000  
Telephone: +61 2 9290 9600

## Auditor

### Ernst & Young

8 Exhibition Street  
Melbourne VIC 3000

## Stock exchange listing

Top Shelf International Holdings Ltd shares are listed on the Australian Securities Exchange (ASX code: TSI).

## Website

[topshelfgroup.com.au](http://topshelfgroup.com.au)

## Business objectives

Top Shelf is a Melbourne based distiller and marketer of premium Australian spirits, with distinctive brands in NED Australian Whisky and Grainshaker Hand Made Australian Vodka. The Group is also creating Australia's first agave spirits range and is developing an agave farm in The Whitsundays region of Queensland.

In accordance with the Listing requirements ASX 4.10.19, the directors confirm that the Group has used cash and cash equivalents that are held at the time of listing in a way consistent with its stated business objectives.

## Corporate Governance Statement

<https://www.topshelfgroup.com.au/investors>

**TOP SHELF**