

Top Shelf International Holdings Ltd
Appendix 4D
Half-year report

1. Company details

Name of entity: Top Shelf International Holdings Ltd
ABN: 22 164 175 535
Reporting period: For the half-year ended 31 December 2021
Previous period: For the half-year ended 31 December 2020

2. Results for announcement to the market

Statutory financial results	Half year ended 31 Dec 2021 (\$'000)	Half year ended 31 Dec 2020 (\$'000)	Mvmt (\$'000)	Up / (down) %
Revenue	11,415	7,284	4,131	56.7%
Gross profit	2,376	1,577	799	50.6%
EBITDA	(7,788)	(7,080)	(708)	10.0%
Loss after tax	(9,555)	(6,729)	(2,826)	42.0%

Comments

Refer to the Directors' report within the attached interim report of Top Shelf International Holdings Ltd for commentary on results for the half-year.

3. Net tangible assets

	31 December 2021	30 June 2021
	\$	\$
Net Tangible Assets per ordinary share	<u>0.81</u>	<u>0.69</u>

Net tangible assets includes right of use assets and the corresponding lease liabilities. Intangible and deferred tax assets have been excluded from the net tangible assets per ordinary share calculation.

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

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7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

Details of attachments (if any):

The Interim Report of Top Shelf International Holdings Ltd for the half-year ended 31 December 2021 is attached.

Top Shelf International Holdings Ltd

ABN 22 164 175 535

Interim Financial Report - 31 December 2021

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31 December 2021

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Top Shelf International Holdings Ltd
Directors' report
31 December 2021

The directors present their report, together with the interim 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 half-year ended 31 December 2021.

Directors

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

Adem Karafili – Executive Chairman

Drew Fairchild - Chief Executive Officer

Peter Cudlipp

Ken Poutakidis

Michael East

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 from its Agave farm in The Whitsundays region of Queensland. This location has been specifically chosen for its climatic suitability for growing tequilana blue agave. The farm is being developed using the most up-to-date and innovative agronomy and 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.

Key operational achievements

The key operational achievements of the Company during FY22 1H included:

Investment

- Ongoing investment in maturing spirit inventory continued during FY22 1H and at 31 December 2021 Top Shelf had over 1.9 million litres of whisky under maturation (@ 43% ABV) and an equivalent of 2.2 million litres of agave spirit (@ 43% ABV).
- The Group's total maturing spirit inventory (whisky and agave) reflected an equivalent net sales value of \$322 million as at 31 December 2021 (30 June 2021: \$272 million) reflecting an increase of 18% above 30 June 2021. Top Shelf's whisky under maturation represented net sales value of \$137 million (30 June 2021: \$111 million; 23% above 30 June 2021) and maturing agave plants at the Eden Lassie agave farm represented an equivalent net sales value of \$185 million once matured. The equivalent agave spirit under maturation reflects 446,000 plants in ground (June 2021: 282,000) at Top Shelf's Eden Lassie agave farm with an additional 148,000 plants in nursery.

Capital

- In November 2021, the Group completed a \$35.0 million capital raise to fund the development of Australia's first integrated agave distillery at scale in north Queensland and Top Shelf's brand acceleration and business performance initiatives. The distillery will have capacity to process, distil and package over 1.5 million bottles of agave spirit annually in addition to being a tourist drawcard for The Whitsundays region. At 31 December 2021, the planning phase for the agave distillery was well advanced.

Capability

- In August 2021, Top Shelf announced the appointment of Trent Fraser to lead the Group's Australian Agave Project and International expansion. Trent brings more than two decades of wine and spirits experience to the Group including the last 13 years in New York City with Moët Hennessy Louis Vuitton (LVMH). During the last six years, Trent led the build and launch of a new international tequila brand, Volcan De Mi Tierra.

Recognition

- In December 2021, Top Shelf received gold medals at the 2021 Melbourne Royal Australian Distilled Spirit Awards (ADSA) awarded to the super premium, limited batch NED Whisky Wanted Series Flair and Loyalty releases, and

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7 other medals for the NED Whisky and Grainshaker Vodka brands. 2021 was the first year that NED Whisky was entered into the ADSA awards with the gold medals reflecting industry recognition of the innovation, skill and expertise of Top Shelf's distilling team.

Innovation

- In December 2021, Top Shelf released an Australian Agave NFT program enabling token holders to secure a unique and bespoke offering inclusive of providing access to spirit from the Group's very first agave harvest. The first release tokens each sold for \$10,000. Token holders will receive a minimum of 35 litres of Australian Agave spirit. The Australian Agave NFT program represents the first sales of Top Shelf's agave spirit, providing an indicator of the potential opportunity for this pioneering Australian spirit category. The program is also reflective of the Group's technology strategy in action, which has involved the development of proprietary technology infrastructure and knowledge to extend the offering to the Top Shelf brand portfolio.

Financial results

Revenue and gross margin

In FY22 1H Top Shelf reported revenue of \$11.4 million, an increase of \$4.1 million or 57% on the prior comparative period (FY21 1H). The revenue growth was attributable to branded product sales (FY22 1H: \$4.6 million) and third party contract packaging services (FY22 1H: \$6.8 million).

Branded product sales in FY22 1H reflected challenging trading conditions in the July to October period due to COVID-19 related lockdowns, particularly in Victoria and New South Wales. Trading conditions improved significantly in November and December resulting from a notable uplift in customer demand for Top Shelf's products, particularly in the on premise and festival and event channels.

Top Shelf also had limited mature whisky available to harvest reflecting the comparative period in 2019 when Top Shelf was transitioning whisky production from third parties to the Campbellfield distillery. The Group's whisky maturation profile in 2022 has significantly greater mature whisky available to harvest than prior periods.

Customer demand for the Group's third party contract packaging services was strong during FY22 1H. The demand reflected product range expansion from existing major retail and craft beverage customers and the onboarding of new customers during this period.

In FY22 1H the Group reported gross profit of \$2.4 million, an increase of \$0.8 million on the prior comparative period and a gross profit margin of 20.8% (FY21 1H: 21.6%). In FY22 1H gross profit margin was influenced to a certain extent by the alcoholic and non-alcoholic beverage mix of third party contract packaging services with alcoholic beverages incurring excise on a passthrough basis.

EBITDA:

The Group reported an EBITDA loss in FY22 1H of \$7.8 million, an increase of \$0.8 million on the prior comparative period and a loss after income tax of \$9.6 million, an increase of \$2.9 million, on the prior comparative period.

The reported EBITDA in FY22 1H reflected:

- the reported gross margin contribution.
- the investment by the Group in building brands through marquee sponsorship arrangements, product livery design elevating brand position, and consumer experiences inclusive of The Distiller in Thornbury, Melbourne.
- expenditure to execute on the Group's:
 - domestic and international sales growth strategies;
 - digital and technology initiatives; and
 - the agave distillery construction planning and brand development.
- the requisite expenditure as a publicly listed company.

Financial position

At 31 December 2021, the Group reported a net tangible asset position of \$58.1 million (net assets excluding intangible and deferred tax assets) with a cash balance of \$38.7 million.

The net tangible asset position at 31 December 2021 included:

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- maturing whisky inventories of \$7.3 million (June 2021: \$6.0 million) (recognised at cost);
- agave plant biological assets of \$11.6 million (June 2021: \$7.7 million) (recognised at fair value); and
- property, plant and equipment of \$28.1 million (June 2021: 27.2 million) inclusive of stay in business and whisky oak program capital expenditure net of depreciation during FY22 1H.

The Group amended a secured financing facility agreement with Longreach Credit in October 2021 with the facility limit extended from \$15.0 million to \$25.0 million. All other terms of the facility remained unchanged. As at 31 December 2021, the facility was fully drawn.

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

	Half year ended 31 Dec 2021 (\$'000)	Half year ended 31 Dec 2020 (\$'000)
Loss after tax	(9,555)	(6,729)
Income tax (benefit)/expense	294	(2,752)
Finance costs	950	2,028
Earnings before interest & taxation (EBIT)	(8,311)	(7,453)
Depreciation & amortisation	523	373
Earnings before interest, taxation and depreciation & amortisation (EBITDA)	(7,788)	(7,080)

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.

Top Shelf International Holdings Ltd
Directors' report
31 December 2021

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Drew Fairchild
Chief Executive Officer



Adem Karafili
Chairman

25 February 2022



**Building a better
working world**

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

As lead auditor for the review of the half-year financial report of Top Shelf International Holdings Ltd for the half-year ended 31 December 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 review;
- b. No contraventions of any applicable code of professional conduct in relation to the review; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink that reads "Ernst & Young".

Ernst & Young

A handwritten signature in black ink that reads "Brett Croft".

Brett Croft
Partner
25 February 2022

Top Shelf International Holdings Ltd

Consolidated statement of profit or loss and other comprehensive income

		Consolidated	
	Note	31 Dec 2021	30 Dec 2020
		\$'000	\$'000
Revenue from contracts with customers	7	11,415	7,284
Cost of sales	8	(9,039)	(5,707)
		2,376	1,577
Gross Profit			
Other Income	9	20	265
Fair value gain on biological assets		3,074	-
Expenses			
Distribution expense		(560)	(249)
Selling expense		(2,830)	(1,655)
Marketing expense		(2,806)	(527)
Operating, general and administration expenses		(6,934)	(4,888)
Share based payments	19	(304)	(1,726)
Depreciation and amortisation expense		(347)	(250)
Finance costs		(950)	(2,028)
		(9,261)	(9,481)
Loss before income tax expense			
Income tax expense		(294)	2,752
		(9,555)	(6,729)
Loss after income tax expense for the half-year attributable to the owners of Top Shelf International Holdings Ltd			
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the owners of Top Shelf International Holdings Ltd		(9,555)	(6,729)
		Cents	Cents
Basic earnings per share	20	(17.98)	(19.21)
Diluted earnings per share	20	(17.98)	(19.21)

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

Top Shelf International Holdings Ltd

Consolidated statement of financial position

		Consolidated	
	Note	31 Dec 2021	30 Jun 2021
		\$'000	\$'000
Assets			
Current Assets			
Cash and cash equivalents		38,683	9,467
Trade and other receivables		7,008	8,018
Inventories	11	9,917	7,447
Other assets		1,469	2,400
Total Current Assets		57,077	27,332
Non-current assets			
Property, plant and equipment	12	28,074	27,227
Right-of-use assets		6,295	6,346
Intangible assets		2,131	2,040
Biological assets	13	11,573	7,673
Deferred tax assets		7,048	6,856
Other assets		353	353
Total non-current assets		55,474	50,495
Total assets		112,551	77,827
Liabilities			
Current liabilities			
Trade and other payables		(13,653)	(11,910)
Lease liabilities		(984)	(933)
Provisions		(723)	(409)
Total current liabilities		(15,360)	(13,252)
Non-current liabilities			
Borrowings	14	(23,586)	(14,877)
Lease liabilities		(6,011)	(5,986)
Provisions		(338)	(324)
Total non-current liabilities		(29,935)	(21,187)
Total liabilities		(45,295)	(34,439)
Net assets		67,256	43,388
Equity			
Issued capital	15	95,569	62,450
Reserves		1,997	1,693
Accumulated Losses		(30,310)	(20,755)
Total Equity		67,256	43,388

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

Top Shelf International Holdings Ltd
Consolidated statement of changes in equity

Consolidated	Issued capital	Reserves	Accumulated losses	Total Equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2020	26,621		(10,016)	16,605
Loss after income tax benefit for the half-year	-	-	(6,729)	(6,729)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(6,729)	(6,729)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity	37,990	-	-	37,990
Share issue transaction costs, net of tax	(2,575)	-	-	(2,575)
Share based payments	414	1,315	-	1,729
Balance at 31 December 2020	62,450	1,315	(16,745)	47,020
Consolidated	Issued capital	Reserves	Accumulated losses	Total Equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2021	62,450	1,693	(20,755)	43,388
Loss after income tax benefit for the half-year	-	-	(9,555)	(9,555)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(9,555)	(9,555)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity	35,000	-	-	35,000
Share issue transaction costs, net of tax	(1,881)	-	-	(1,881)
Share based payments	-	304	-	304
Balance at 31 December 2021	95,569	1,997	(30,310)	67,256

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

Top Shelf International Holdings Ltd
Consolidated statement of cash flows

		Consolidated	
	Note	31 Dec 2021	31 Dec 2020
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		13,952	6,246
Payments to suppliers and employees		(23,731)	(11,833)
Receipts from R&D		307	-
		<hr/>	<hr/>
Net cash used in operating activities		(9,472)	(5,587)
		<hr/>	<hr/>
Cash flows from investing activities			
Payments for property, plant and equipment		(1,610)	(783)
Payments for intangibles		(91)	(334)
Payments for biological assets		(827)	(162)
Receipts from R&D		922	-
		<hr/>	<hr/>
Net cash used in investing activities		(1,606)	(1,279)
		<hr/>	<hr/>
Cash flows from Financing activities			
Proceeds from issue of shares	15	35,000	48,152
Payment of proceeds to selling shareholders		-	(12,200)
Share issue transaction costs	15	(2,366)	(4,705)
Proceeds from borrowings - external	14	10,000	-
Borrowings transaction costs	14	(1,400)	-
Proceeds from borrowings - related parties		-	2,408
Repayment of borrowings - external financier		-	(3,000)
Repayment of borrowings - related parties		-	(5,016)
Repayment of lease liabilities -buildings & equipment		(102)	(2,350)
Interest and other finance costs paid - borrowings		(461)	(1,687)
Interest and other finance costs paid - leases		(377)	(286)
		<hr/>	<hr/>
Net cash from financing activities		40,294	21,317
		<hr/>	<hr/>
Net increase in cash and cash equivalents		29,216	14,452
		<hr/>	<hr/>
Cash and cash equivalents at the beginning of the financial half-year period		9,467	1,656
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial half-year period		38,683	16,108
		<hr/>	<hr/>

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

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
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Note 1. General information

The interim financial statements of Top Shelf International Holdings Ltd as a group consist of Top Shelf International Holdings Ltd ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year (referred to hereafter as the 'Group'). The interim 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 10 December 2020.

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

Note 2. Statement of compliance

These interim financial statements for the half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

These interim financial statements were authorised for issue, in accordance with a resolution of directors, on 25 February 2022.

Note 3. Basis of preparation

The interim financial statements have been prepared on the basis of historical cost except for the revaluation of biological assets. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The 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 cash flow projections and debt covenant requirements. In the ordinary course, the Group is engaged with its financier on an ongoing basis in relation to its growth trajectory and ongoing funding requirements. The minimum cash balance covenant in the existing financing facility is based on a 12 month forward looking view, providing Top Shelf with a window of time to source additional funding prior to depletion of its cash reserves. In addition, the Group also has a level of discretion in managing cash outflows and therefore the directors are satisfied that there are reasonable grounds to conclude the Group can continue as a going concern.

The principal accounting policies adopted are consistent in the preparation of this Interim Report are consistent with those adopted and disclosed in the Group's annual report for the year ended 30 June 2021, except for the application of the Group's accounting policies to a new business activity for the half year period commencing 1 July 2021:

Revenue recognition

The Group has continued to apply the revenue recognition policy disclosed in the Group's annual report for the year ended 30 June 2021 and has recognised revenue in relation to the Group's agave non-fungible token (NFT) program launched in December 2021 in accordance with *AASB 15 Revenue from Contracts with Customers*.

The Group has identified distinct performance obligations reflected in the customer contract associated with the agave NFT program. Revenue is recognised at the point in time when the Group satisfies a performance obligation with the consideration allocated to each performance obligation on a stand alone selling price basis. To determine the stand alone selling price, the Group has adopted an expected cost plus margin approach for each performance obligation with a residual approach for the initial performance obligation of the non-fungible token transfer. With this approach, direct costs to fulfil each performance obligation are recognised.

Consolidated statement of financial performance expense classification change

The Group has revised the classification of operating expenses in the presentation of the consolidated statement of financial performance. The Group believes the revised presentation is more representative of Top Shelf's operating

Top Shelf International Holdings Ltd
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structure and on this basis more informative to users of this report.

The Group has defined expense categories as follows:

- Selling expense as costs inclusive of employee benefits associated with Top Shelf's selling activities;
- Marketing expense as costs inclusive of employee benefits relating to Top Shelf's brand development and marketing activities
- Operating, general and administration expenses inclusive of employee benefits reflecting operating costs of business activity and group support functions in addition to costs associated with the Group operating as a publicly listed company.

The table below summarises the reclassification of operating expenses for the comparative period, the half year ended 31 December 2020.

Original presentation		Revised presentation	
Operating expenses		Operating expenses	
Distribution expense	(249)	Distribution expense	(249)
Employee benefit expense	(1,447)	Selling expense	(1,655)
Sales & marketing expense	(1,763)	Marketing expense	(527)
Administration and operating expense	(3,860)	Operating, general and administration expenses	(4,888)
Share based payments	(1,726)	Share based payments	(1,726)
Depreciation and amortisation expense	(250)	Depreciation and amortisation expense	(250)
Finance costs	(2,028)	Finance costs	(2,028)
Operating expenses - total	(11,323)	Operating expenses - total	(11,323)

Comparative figures are shown in the consolidated statement of financial position for 30 June 2021.

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 4. New or amended Accounting Standards and Interpretations adopted

The Group has adopted a number of new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these accounting standards and interpretations did not have any significant impact on the financial performance or position. Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet mandatory, have not been early adopted for the half year reporting period ended 31 December 2021

Note 5. Critical accounting judgements, estimates and assumptions

The preparation of 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.

In preparing this interim report, the significant estimates and judgements applied in the Group's accounting policies were consistent with those applied to the consolidated financial statements as at and for the year ended 30 June 2021.

Income tax

The Group has continued to apply the income tax policy disclosed in the Group's annual report for the year ended 30 June 2021.

Top Shelf International Holdings Ltd
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Income tax losses incurred in the FY22 1H period have not been recognised as a deferred tax asset on the Group's consolidated statement of financial position. At 31 December 2021, the Group had gross accumulated tax losses of \$40.5 million. Top Shelf expects to utilise these tax losses against future taxable amounts in future periods.

Note 6. 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 the producer of branded beverages and provision of co-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, and consistent with the consolidated financial statements for the year ended 30 June 2020, the information provided in this interim report reflects the one operating segment.

EBITDA

Earnings before interest, taxation and depreciation & 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:

	Half year ended 31 Dec 2021 (\$'000)	Half year ended 31 Dec 2020 (\$'000)
Loss after tax	(9,555)	(6,729)
Income tax expense/(benefit)	294	(2,752)
Finance costs	950	2,028
Earnings before interest & taxation (EBIT)	(8,311)	(7,453)
Depreciation & amortisation	523	373
EBITDA	(7,788)	(7,080)

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Notes to the consolidated financial statements
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Note 7. Revenue

Disaggregation of revenue

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

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
<i>Major Revenue Stream</i>		
Branded (net of discounts and rebates)	4,615	4,027
Contract packaging	6,800	3,257
	11,415	7,284

Note 8. Cost of sales

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Raw Materials	2,798	2,640
Excise	5,171	2,381
Direct Labour	650	450
Manufacturing Overhead	420	236
	9,039	5,707

Note 9. Other income

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Research and development ('R&D') income	-	468
Allocation of R&D income to property, plant & equipment or intangible assets	-	(263)
Other income	20	60
	20	265

R&D income

In prior periods, the Group recognised accrued R&D income in relation to expected eligible expenditure associated with Top Shelf's research and development 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. For the financial year ending 30 June 2022, Top Shelf will recognise the R&D benefit as an income tax offset as the Group will exceed the threshold to receive the benefit as a cash refund of annual turnover of \$20 million.

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

The R&D income claimed and approved by the Australian Taxation Office in relation to the financial year ended 30 June 2021 (\$1.2 million) was received by the Group in November 2021.

Note 10. Expenses

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Employee benefit expense	4,623	1,447
Depreciation and amortisation expense	347	250

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
31 December 2021

Note 11. Inventories

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$'000	\$'000
<i>Current assets</i>		
Raw Materials and consumables	1,786	1,314
Intermediate Inventories	135	95
Finished Goods	1,010	455
Maturing Inventories	7,276	5,982
Provision for Stock Obsolescence	(290)	(399)
	9,917	7,447

Note 12. Property, Plant and Equipment

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$'000	\$'000
<i>Non Current Assets</i>		
Property, Plant and Equipment	28,074	27,227

Reconciliation

A reconciliation of the Property, Plant and Equipment balance at the beginning and end of the current half-year period is set out below:

	\$'000
Balance at 1 July 2021	27,227
Additions	1,605
Depreciation during the half year ended 31 December 2021	(758)
Balance at 31 December 2021	28,074

Additions in the half year are related to the Group's recurring small oak whisky barrel acquisition program, Agave distillery project preliminary expenditure, the completion of The Distiller brand experience venue in Thornbury, Melbourne and stay in business improvements at the Campbellfield production facility.

Note 13. Biological assets

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$'000	\$'000
<i>Non Current Assets</i>		
Agave plants - at fair value	11,573	7,673

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. 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.

The Group has determined the fair value less costs to sell the 446,000 plants in ground as at 31 December 2021 (30 June 2021: 282,000) applying the same methodology and assumptions as for the financial year ended 30 June 2021. For detail on the underlying assumptions and valuation inputs, refer the annual report for the year ended 30 June 2021.

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
31 December 2021

Reconciliation

A reconciliation of the Agave plants at fair value at the beginning and end of the current half-year period are set out below:

	Agave Plants
	\$'000
Balance at 1 July 2021	7,673
Expenditure	826
Fair value gain during the half year ended 31 December 2021	3,074
Balance at 31 December 2021	<u>11,573</u>

Note 14. Borrowings

	Consolidated	
	31 Dec 2021	30 Jun 2021
	\$'000	\$'000
<i>Non-Current Liabilities</i>		
Loan from Longreach Direct Lending Fund - interest bearing	25,000	15,000
Borrowing Costs	(1,414)	(123)
	<u>23,586</u>	<u>14,877</u>

Financing Facility with Longreach Direct Lending Fund

The Company has a secured financing facility 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. If the market capitalisation does not exceed \$75.0 million, the interest rate is 10.0%. The maturity date of the facility is 15 December 2023.

The Company executed an Amendment Deed with Longreach Credit Investors on 18 October 2021 to extend the facility from \$15.0 million to 25.0 million. The facility was fully drawn to \$25.0 million at 31 December 2021.

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.

Note 15. Issued capital

	Consolidated			
	31 Dec 2021	30 Jun 2021	31 Dec 2021	30 Jun 2021
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	71,588,086	49,713,086	97,450	65,025
Share issue transaction costs, net of tax	-	-	(1,881)	(2,575)
	<u>71,588,086</u>	<u>49,713,086</u>	<u>95,569</u>	<u>62,450</u>

Movements in ordinary share capital

	Date	Shares	Issue Price	\$'000
Opening Balance		49,713,086		62,450
Issue of Shares (Placement and institutional entitlement offer)	27 October 2021	13,732,635	\$1.60	21,972
Issue of Shares (Retail entitlement offer)	11 November 2021	8,142,365	\$1.60	13,028
Share issue transaction costs, net of tax				<u>(1,881)</u>
Closing Balance	31 December 2021	<u>71,588,086</u>		<u>95,569</u>

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
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Note 16. Dividends

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

Note 17. Contingent liabilities

The Group has given bank guarantees as at 31 December 2021 of \$375,000 (30 June 2021: \$375,000) to various landlords.

Note 18. Related party transactions

Parent entity

Top Shelf International Holdings Ltd is the parent entity.

Transactions with related parties

During the half-year ended 31 December 2021, the Company 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. The Company has incurred fees of \$30,100 (excluding GST) in relation to these services.

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

During the half year ended 31 December 2021, there were no loans or payables with related parties.

Terms and conditions

All loan transactions were made on normal commercial terms and conditions and at market rates.

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
31 December 2021

Note 19. Share-based payments

FY22 option offer – June 2021

In June 2021, 2,061,948 share options were granted to directors and employees as part of the FY22 option offer in accordance with the terms of the Group's Long Term Incentive Plan ('LTIP'). In accordance with the terms of the LTIP, participants in the FY22 option offer were offered start-up options and premium priced options under the same conditions and basis as share options granted to directors and employees in the financial year ended 30 June 2021.

As part of the FY22 option offer, 486,956 Start-up options and 1,574,992 Premium priced options were issued. The exercise price for each form of option was \$2.03 and \$3.45 respectively.

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: \$0.1865

Premium priced options: \$0.1089

For the six months ended 31 December 2021, the Group recognised \$304,000 of share-based payment expense in relation to the plan in the statement of profit and loss (31 December 2020: \$1,315,000).

Note 20. Earnings per share

	Consolidated	
	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Loss after income tax attributable to the owners of Top Shelf International Holdings Ltd	(9,555)	(6,729)
Weighted average number of ordinary shares used in calculating basic earnings per share	53,137,816	35,031,242
Weighted average number of ordinary shares used in calculating diluted earnings per share*	53,137,816	35,031,242
	Cents	Cents
Basic earnings per share	(17.98)	(19.21)
Diluted earnings per share	(17.98)	(19.21)

* Options are excluded from the above calculation as their inclusion would be anti-dilutive

Note 21. Events after the reporting period

No matter or circumstance has arisen since 31 December 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.

Top Shelf International Holdings Ltd
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Drew Fairchild
Chief Executive Officer



Adem Karafili
Chairman

25 February 2022
Melbourne



**Building a better
working world**

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 review report to the members of Top Shelf International Holdings Ltd

Conclusion

We have reviewed the accompanying half-year financial report of Top Shelf International Holdings Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2021, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Ernst & Young



Brett Croft
Partner
Melbourne
25 February 2022