# Appendix 4E
# Preliminary Final Report

# Gage Roads Brewing Co Limited
## ABN 22 103 014 320

## For the financial year ended 30 June 2019

**Results for announcement to the market**

| | | | | $ |
|---|---|---|---|---|
| Revenue from continuing activities | Up | 20% | to | 39,702,824 |
| Profit from ordinary activities after tax attributable to members | Up | 28% | to | 2,649,386 |
| Net profit attributable to members | Up | 28% | to | 2,649,386 |

**Dividends (distributions)**

There were no dividends declared for the period.
The company does not have a Dividend Re-investment Plan.

| **Net tangible assets per share** | **30 June 2019** | 30 June 2018 |
|---|---|---|
| | **$** | $ |
| | **0.03** | 0.04 |

| **Statement of accumulated losses** | **30 June 2019** | 30 June 2018 |
|---|---|---|
| | **$** | $ |
| Balance 1 July | **(6,451,537)** | (8,515,249) |
| Net profit for the year | 2,649,386 | 2,063,711 |
| Balance 30 June | **(3,8702,151)** | (6,451,538) |

**Details of controlled entities**

There were no controlled entities acquired or disposed of during the period.

**Details of associates and joint venture entities**

There were no associates or joint venture entities associated with the company for the period.

**Reporting Periods**

The current reporting period is the financial year ended 30 June 2019. The previous corresponding period is the year ended 30 June 2018.

**Financial statements**

The Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and associated notes are contained in the attached Annual Report for the year ended 30 June 2019.

**Commentary on the results for the year ended 30 June 2019**

**Review of Operations**

**FY19 HIGHLIGHTS**

- Proprietary brand volume up 61% to 8m Litres^
- Revenue up 20% to $39.7m^
- Gross profit up 26% to $25.5m^, representing a 64% GP (up from 61% in FY18)
- EBITDA up 23% to $5.5m^
- Successfully integrated and grown Matso's brands
- Accelerated sales and marketing investment to $6.4 million
- $8m packaging line expansion program on track
- $3m Redfern brewery and taproom on track

^ in comparison to FY18

We are pleased to present another year of strong growth that has driven increased earnings and ultimately higher value for our shareholders. We have continued to deliver on key leading indicators during the third year of the 5-Year proprietary brand strategy.

In summary, this strategy seeks to increase the awareness of our proprietary brands and expand those brands into broader national markets, driving incremental sales from the previously un-tapped independent retail and on-premise channels to market.

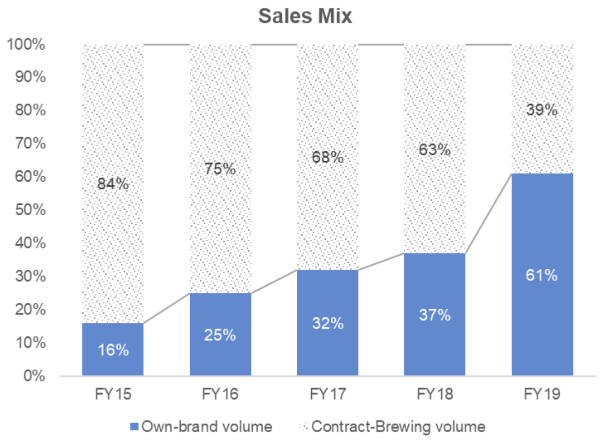
Complementing our efficient and high-quality brewing capabilities, the strategy includes investing strongly in Good Drinks, strengthening our sales, distribution and marketing capabilities on a national basis.

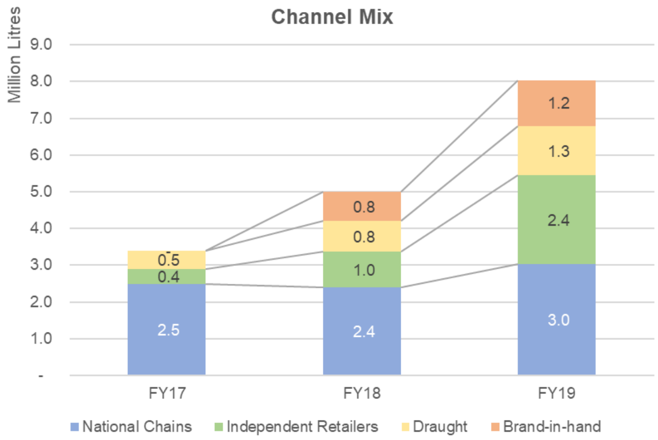
Greater consumer awareness combined with expanded access to national markets and these new channels is expected to grow annual volumes of our brands, delivering improved margins and sustained earnings growth through the shift in sales mix towards higher-margin products.

**FY19 SALES AND FINANCIAL RESULTS**

| Sales by category (million Litres) | FY19 | FY18 | Growth |
|---|---|---|---|
| Gage Roads Brands | 5.2 | 4.2 | 23% |
| Matso's Brands | 1.6 | - | 100% |
| Contract-brewed brands | 5.2 | 7.7 | -33% |
| Total Underlying Volume | 12.0 | 11.9 | 0% |
| "Brand-in-hand" volume | 1.2 | 0.8 | 51% |
| **Total Volume** | **13.2** | **12.8** | **4%** |

| Sales by channel (million Litres) | FY19 | FY18 | Growth |
|---|---|---|---|
| National Chains | 3.0 | 2.4 | 27% |
| Independent Retailers | 2.4 | 1.0 | 146% |
| Draught | 1.3 | 0.8 | 62% |
| Brand-in-hand | 1.2 | 0.8 | 56% |
| Total Good Drinks volume | 8.0 | 5.0 | 61% |




We are extremely pleased with the momentum of our proprietary Good Drinks brands, 3 years into the 5-year Proprietary Brand Strategy. Strong growth across all channels resulted in total proprietary brands sales for the year being up 61% to 8 million Litres.

Sales of our *Single Fin Summer Ale* have grown 76% over the prior year to become the Company's highest selling individual brand and has proven to be a high performer with the Company's new channels to market. Single Fin continues to be the fastest growing independent retail brand in the craft market segment.

During the year both *Single Fin* and *ALBY* brands were extended into can formats taking advantage of the extraordinary growth of the can format within the craft market (up 74%) and total packaged beer market (up 11%).

Matso's Ginger Beer, Australia's favourite alcoholic ginger beer for over 19 years, has achieved strong growth and continues to be the most valuable alcoholic ginger beer brand in the retail channel.

The growth in sales of our higher-margin brands has resulted in revenues of $39.7m for the year, an improvement of 20% over FY18.

In line with our strategy, the own-brand portion of the total sales mix has grown from 39% in FY18 to 61% in FY19. This shift in sales mix towards our own brands has improved total gross profit from 61% in FY18 to 64% in FY19. This shift in sales mix and improvement in margin are key performance indicators of the Proprietary Brand Strategy and we are well on track to deliver our margin expectations in FY20 and FY21.

Good Drinks sales to national independent retailers were up 146% over FY18. We continued to invest in our national sales, marketing and distribution capabilities in key states Western Australia, Queensland, Victoria and New South Wales, providing growth in distribution outlets and sales in these markets. Sales of Goods Drinks brands in Western Australia grew by 72% for the year with the balance of volume on the eastern seaboard growing at 23%.

FY19 sales of Good Drinks brands to the national chains was 3m Litres, up 27% in comparison to those achieved in FY18. We are pleased to see that the sales growth in independent channels to market has not come at the expense of our existing channels, but rather, the increased consumer awareness has supported Gage Roads' brands in all markets.

FY19 sales of our contract-brewing division, Australian Quality Beverages (AQB), were down 2.5m litres to 5.2m litres in comparison to FY18. Of the 2.5m Litres, 1.6 m Litres, of Matso's sales (acquired in September 2018) which were previously captured under AQB brands are now included as Good Drinks proprietary brands. Consistent with our strategy, AQB volumes are being reduced and are expected to represent approximately 4m Litres over the next few years.

The combined proprietary sales and AQB volumes resulted in a total throughput of 13.2m Litres and generated an unaudited EBITDA of $5.5 million for FY19, an improvement of 25% over FY18.

This result represents 46 cents EBITDA per underlying litre (total volume less brand-in-hand volume) and is up from 39 cents EBITDA per underlying litre in FY18.

The FY19 cost structure is aligned with the 5-year proprietary brand strategy and controllable costs have been well managed. Raw materials, consumables & delivery and Operating expenses (up $1.4 million over FY18) have increased in line with total volume.

Sales and marketing expenses of $ 6.4 million included payments in support of the various "brand in hand" marketing events during the year. These events generated an incremental $ 2.3 million in gross contribution.

Employee expenses during the year grew by $0.9m. This is attributable to the growth in the Good Drinks team which saw 13 people added during FY19. In FY20 we will continue to accelerate investment in our Good Drinks team and sales, distribution and marketing capabilities, with an additional $2 million anticipated for that year. Thereafter the investment in the Good Drinks team will more closely align with sale volume and earnings growth.

**Working Capital and Balance Sheet**

The Company finished the financial year with a strong cash balance of $9.3m and in a debt-free position. During the financial year the business had one-off non-recurring working capital movements resulting from both a change of trading terms with Endeavour Drinks as well as the natural increase of debtors due to the onboarding of Matso's sales and revenues. This resulted in an increase of $6.0m in trade debtors at year-end (FY19: $8.8m, FY18: $2.8m).

| Gage Cash Reconciliation FY18 to FY19 | $m |
|---|---|
| 30 June 2018 cash balance | $ 16.9 |
| Add capital raising (SPP - Matso's) | $ 2.1 |
| Add capital raising - Canning Line | $ 7.6 |
| Add EBITDA | $ 5.5 |
| Less Matso's acquisition | ($ 13.0 ) |
| Less capital expenditure purchases | ($ 4.4 ) |
| Less increase in trade & other receivables | ($ 6.4 ) |
| Less increase in inventory | ($ 0.2 ) |
| Add increase in trade payables | $ 1.3 |
| **30 June 2019 cash balance** | **$ 9.3** |

During the year the Company addressed these working capital movements using existing cash flows and debt facilities. Although these movements were by absorbed by year-end, the Company is implementing a tailored debtor financing facility from the Commonwealth Bank to fund any future intra-year movements in working capital to support the continued strong growth of our brands.

The Company is in a debt free position and has debt facilities to an approved limit of $6 million. With additional headroom in our credit facility the business is in a strong financial position, providing an excellent platform from which to continue to execute the 5-year plan.

**MATSO'S ACQUISITION AND GOOD DRINKS**

On 20 September 2018, the Company acquired 100% of Matso's Broome Brewing Pty Ltd. Since on-boarding the brands we have improved the growth in sales rates of Matso's flagship product *Matso's Ginger Beer* and have reversed the decline of *Matso's Mango Beer*. We have also added to the family by introducing a new and innovative brand *Matso's Hard Lemon*. The acquisition has delivered to date on its volumes and earnings expectations with Matso's brands on track to achieve circa 2m litres on an annualised basis.

Acquiring the Matso's brands provided a step-change for the 5-year proprietary brand strategy. The acquisition represented a major expansion of our brand portfolio and was the catalyst for the re-branding of our sales and marketing team to Good Drinks and the Good Drinks strategy. The Good Drinks strategy seeks to evolve the business from a branded house to a house of brands, each with distinct identities, and to develop a highly capable national sales, distribution and marketing team to enable broader distribution and deliver sustained sales and earnings growth.

Good Drinks milestones for the year included investing in new and highly experienced leadership and capabilities for both the sales and marketing teams.

The sale team established our sales head office in Sydney, invested in key account management, state-based leadership and promotional programs, commercial analysis and a number of additional sales people. Focusing on developing joint business plans with key national accounts and delivering broader distributions both in Western Australia and across the eastern seaboard, the sales team have delivered a solid platform to enable strong sales results this summer.

Additional investment in marketing saw expanded advertising, national outdoor signage and event-based marketing campaigns, significant new product development and the addition of communications, graphic design and brand management capabilities to the marketing team. During the year the business also established and secured experienced leadership for our venue strategy.

This year a total of 13 highly qualified and experienced people joined the Good Drinks team. Our investment, to significantly increase our sales, distribution and marketing capabilities whilst generating a strong 25% growth in EBITDA, validates our strategy and secures the future earnings capabilities of our business. We feel our growing Good Drinks capability will become one of our strongest and most enduring competitive advantages.

We continue to see success with our cost-neutral "brand-in-hand" marketing strategy, achieving increased sales through greater brand awareness. Sales to Optus Stadium, Fringe World, HBF Park, Rugby 7s and other events delivered earnings that substantially offset the costs of the strategy. These partnerships are an effective way to activate the Company's products in the market.

The "brand-in-hand" marketing strategy is designed to promote trial and consumer awareness by utilising latent capacity to generate additional sales volumes at stadiums and events which aim to offset the costs of the strategy.

Complementing our existing partnerships, we were pleased to extend our brand in hand strategy to events such as the St Kilda Festival, Vivid Sydney Carriage Works, AACTA Awards and Wine Machine during the year.

We are excited to see continued success in the beer award arena for our proprietary brands. Recently, we won gold medals at the Royal Sydney Beer Show for *Alby Draught*, *Matso's Mango Beer* and our *Very Hoppy Ale*. We were also awarded gold medals at the Australian International Beer Awards for our *Very Hoppy Ale, Sleeping Giant IPA* and *Atomic Beer Project IPA*. These limited release products support Gage Roads' craft beer quality credentials and increase consumer awareness of our core range.

**NEW BRANDS**

We have introduced a number of new and exciting brands to complement our existing brand portfolio.

***The Atomic Beer Project***

ATOMIC
BEER PROJECT

- *Atomic Pale Ale* has been converted from one of our foundation products under the Gage Roads range to a stand-alone halo brand, the *Atomic Beer Project.* The *Atomic Beer Project* will champion the exploration of hops and showcase an innovation led portfolio including the development of a number of new limited release and core products.
- Re-branded existing *Atomic Pale Ale* product into flagship product of the new *Atomic Beer Project*
- Created limited edition *Atomic IIPA* in 500ml can format demonstrating our craft beer ethos and credibility
- Introduced new *Atomic IPA* into the core range 330ml can format
- Introduced new *Atomic XPA* into the core range in 330ml can format


***Gage Roads***

GAGE ROADS
BREWING CO

- The Gage Roads range has been evolved to take advantage of the growth in craft can format
- Converted *Little Dove New World Ale* into 330ml can format product
- Introduced *Sidetrack All Day XPA* into the core range in 330ml can format
- Limited release *VHA Very Hoppy Ale* on draught and in 500ml can format

`

***Matso's***

- The Matso's range see's the addition of Matso's Hard Lemon to this flamboyant and fun flavoured brand family, continuing to explore the growing consumer trend to seek out brands in new categories.
- Refreshed master brand with minor changes in design
- Refreshed artwork of *Matso's Ginger Beer*
- Refreshed artwork of *Matso's Mango Beer*
- Introduced new *Matso's Hard Lemon* in 330ml bottle format


**REDFERN MICROBREWERY AND TAPROOM**

Our first microbrewery and taproom venue in Redfern, NSW, the home of the *Atomic Beer Project*, is also progressing well. Brewing equipment has been ordered and construction works are expected to commence shortly.

We are investing approximately $3 million for the installation of a brewhouse and taproom fit-out of the premises, which will be funded via existing operating cash flows and credit facilities.

Our venue strategy has two primary benefits; to significantly improve awareness of proprietary brands driving increased retail sales on the east coast, and to deliver a standalone financial return. To support our east coast growth strategy, part of the earnings generated by this venue will be re-invested to fund the growth of our Good Drinks team.

This is the first of a number of venues that we plan to establish in key markets Australia-wide in the next few years. The Atomic Beer Project Redern venue is expected to open to the public in Q3 FY20.

**PACKAGING LINE EXTENSION PROGRAM**

On 20 April 2019 we successfully completed an $8m capital raising in order to fund the implementation of a packaging line extension program. The program includes the installation of a new commercial scale canning line, a new high-speed bottle filler and other plant improvements. These improvements provide a new can-format capability for the business and drive increased plant efficiencies that will result in lower operating costs and improved earnings. Of the $8 million expected total capital expenditure, $2 million has been spent in FY19, with the remaining balance due in FY20 and FY21.

The market for beer in can format is in significant growth, currently representing 11% of the craft beer market and growing rapidly at 74% per annum.

The new can filler, bottle filler and plant improvements provide production efficiencies and reduced waste. With this new machinery in place, the Company is targeting additional earnings of $1.5 million to $2.5 million by FY22. The program is well underway and is both on schedule and on budget.

The new equipment is expected to be commissioned in December and is expected to be fully operational by Q3 FY20.

**OUTLOOK FOR FY20**

- Good Drinks brands growth and 5-year strategy on track to deliver margin growth and earnings targets for FY20 and beyond
- Redfern venue expected to be opened early in 2020 and next sites identified
- National chain volumes in line with expectations
- Good Drinks team continues to focus on building a capable, empowered and nationally represented sales team
    - Increased brand-in-hand activity driving consumer awareness on east coast
    - Key account focus on on-premise and off-premise
    - Optimise distributions to maximise this summer's key trading period
    - Implementing state-led teams and state-based programs
    - Strong new-product development agenda
- Continue to explore potential acquisition targets and international opportunities

With a flexible balance sheet, a management team strongly-aligned to shareholders, existing revenue streams secured and enhanced ability to drive revenue and margin growth, we are well placed to deliver growth in earnings and sustained value for our shareholders.

FY19 was again a fantastic year for the business and the team and we're pleased to see that all the key targets we have set as part of the 5-year Proprietary Brand Strategy are being delivered. Awareness for our brands has grown significantly and we look to build on that even further. The investment in the Good Drinks team and sales, distribution and marketing capabilities is delivering great results and we are confident about the prospects for our brands and continued earnings growth for our shareholders.

John Hoedemaker
**Managing Director**

Gage Roads Brewing Co Limited
Tel: (08) 9314 0000

Further detailed commentary on the results for the year ended 30 June 2019 is provided in the Chairman's Letter, Review of Operations and Directors' Report sections of the attached Annual Report.

## Compliance statement

1. This report, and the accounts upon which this report is based, have been prepared in accordance with AASB Standards.
2. This report, and the accounts upon which the report is based, use the same accounting policies.
3. This report gives a true and fair view of the matters disclosed.
4. This report is based upon accounts to which one of the following applies:

| | |
|---|---|
| ☑ The accounts have been audited. | ☐ The accounts have been subject to review. |
| ☐ The accounts are in the process of being audited or subject to review. | ☐ The accounts have *not* yet been audited or reviewed. |

5. The entity has a formally constituted audit committee.

Marcel Brandenburg

Signed: Date: 30 August 2019
Company Secretary

Name: Marcel Brandenburg

**GAGE ROADS BREWING CO LIMITED**
**ANNUAL REPORT**
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019**

**ABN 22 103 014 320**

## Corporate Directory

**Directors**
Graeme Wood
Ian Olson (Chairman)
John Hoedemaker
Robert Gould

**Managing Director**
John Hoedemaker

**Company Secretary**
Marcel Brandenburg

**Principal Place of Business & Registered Office**
14 Absolon Street
PALMYRA WA 6157
Tel: (08) 9314 0000
Fax: (08) 9331 2400

Web: www.gageroads.com.au

**Postal Address**
PO Box 2024
PALMYRA WA 6961

**Auditor**
BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

**Legal Adviser**
Steinepreis Paganin
Lawyers and Consultants
Level 4, The Read Building
16 Milligan Street
PERTH WA 6000

**Stock Exchange Listing**
ASX Limited
Level 40, Central Park
152-158 St George's Terrace
PERTH WA 6000

ASX Code: GRB

**Share Registry**
Automic Registry Services
PO Box 2226
STRAWBERRY HILLS NSW 2012

*Registry Enquiries*
Within Australia: 1300 288 664
Outside Australia: (+61 2) 9698 5414

# Contents

Dear Shareholder,

On behalf of your Board, I am pleased to report on a year that saw the Company continue to grow revenue and earnings, with improvements recorded across all key financial metrics. Successful integration of the Matso's acquisition contributed to a 60% growth in proprietary brand volumes, which drove much of this performance.

During the year your Board also committed to further investment in sales and marketing capacbility, plant expansion and a new venue strategy. These initiatives were conceived to deliver additional dimension and scale to the business and are expected to further drive growth in revenue and margins into FY20 and beyond. As part of the plant expansion strategy, we conducted an $8m placement in April and your Board would like to thank both existing and new shareholders for their support in helping secure the required financial capacity to underwrite the capital requirements.

Your Board also set out to strengthen the Company's management team during the year, with appointments of additional high quality people across key roles in our business. In executing the board strategy, the Company is better positioned than ever to capitalise on continued growth in demand for craft beer and other high-margin products across our expanding brand portfolio.

The entire team at Gage Roads is to be commended for their passion, professionalism and commitment to growing a world-class operation and on behalf of your Board, I would also like to thank all shareholders for your ongoing support of our great business.

Ian Olson

**Chairman**

**Commentary on the results for the year ended 30 June 2019**

**Review of Operations**

**FY19 HIGHLIGHTS**

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^ in comparison to FY18

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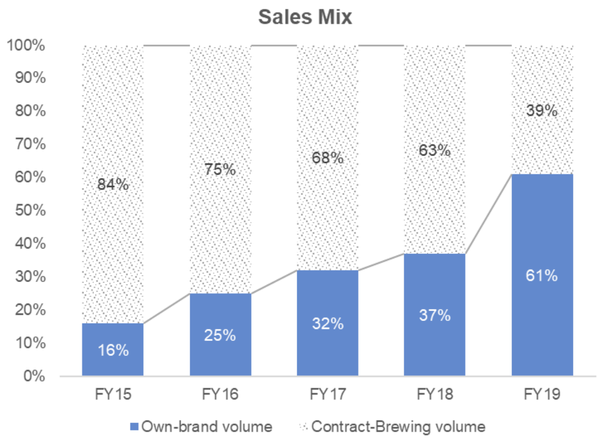


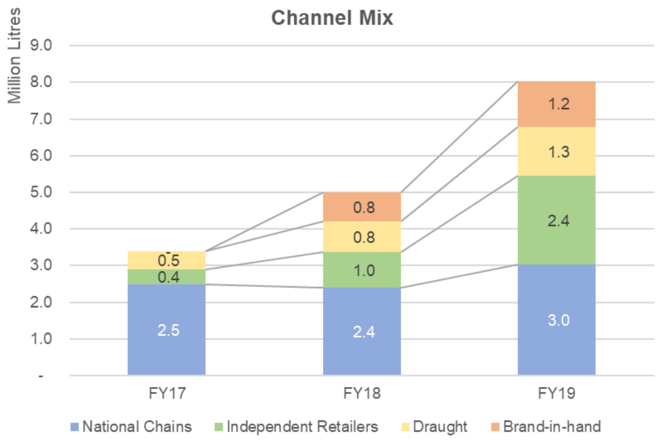


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Good Drinks milestones for the year included investing in new and highly experienced leadership and capabilities for both the sales and marketing teams.

The sale team established our sales head office in Sydney, invested in key account management, state-based leadership and promotional programs, commercial analysis and a number of additional sales people. Focusing on developing joint business plans with key national accounts and delivering broader distributions both in Western Australia and across the eastern seaboard, the sales team have delivered a solid platform to enable strong sales results this summer.

Additional investment in marketing saw expanded advertising, national outdoor signage and event-based marketing campaigns, significant new product development and the addition of communications, graphic design and brand management capabilities to the marketing team. During the year the business also established and secured experienced leadership for our venue strategy.

This year a total of 13 highly qualified and experienced people joined the Good Drinks team. Our investment, to significantly increase our sales, distribution and marketing capabilities whilst generating a strong 25% growth in EBITDA, validates our strategy and secures the future earnings capabilities of our business. We feel our growing Good Drinks capability will become one of our strongest and most enduring competitive advantages.

We continue to see success with our cost-neutral “brand-in-hand” marketing strategy, achieving increased sales through greater brand awareness. Sales to Optus Stadium, Fringe World, HBF Park, Rugby 7s and other events delivered earnings that substantially offset the costs of the strategy. These partnerships are an effective way to activate the Company’s products in the market.

The “brand-in-hand” marketing strategy is designed to promote trial and consumer awareness by utilising latent capacity to generate additional sales volumes at stadiums and events which aim to offset the costs of the strategy.

Complementing our existing partnerships, we were pleased to extend our brand in hand strategy to events such as the St Kilda Festival, Vivid Sydney Carriage Works, AACTA Awards and Wine Machine during the year.

We are excited to see continued success in the beer award arena for our proprietary brands. Recently, we won gold medals at the Royal Sydney Beer Show for *Alby Draught*, *Matso’s Mango Beer* and our *Very Hoppy Ale*. We were also awarded gold medals at the Australian International Beer Awards for our *Very Hoppy Ale, Sleeping Giant IPA* and *Atomic Beer Project IPA*. These limited release products support Gage Roads’ craft beer quality credentials and increase consumer awareness of our core range.

## NEW BRANDS

We have introduced a number of new and exciting brands to complement our existing brand portfolio.

***The Atomic Beer Project***

ATOMIC
BEER PROJECT

- *Atomic Pale Ale* has been converted from one of our foundation products under the Gage Roads range to a stand-alone halo brand, the *Atomic Beer Project.* The *Atomic Beer Project* will champion the exploration of hops and showcase an innovation led portfolio including the development of a number of new limited release and core products.
- Re-branded existing *Atomic Pale Ale* product into flagship product of the new *Atomic Beer Project*
- Created limited edition *Atomic IIPA* in 500ml can format demonstrating our craft beer ethos and credibility
- Introduced new *Atomic IPA* into the core range 330ml can format
- Introduced new *Atomic XPA* into the core range in 330ml can format


***Gage Roads***

GAGE ROADS
BREWING CO

- The Gage Roads range has been evolved to take advantage of the growth in craft can format
- Converted *Little Dove New World Ale* into 330ml can format product
- Introduced *Sidetrack All Day XPA* into the core range in 330ml can format
- Limited release *VHA Very Hoppy Ale* on draught and in 500ml can format

***Matso's***

- The Matso's range see's the addition of Matso's Hard Lemon to this flamboyant and fun flavoured brand family, continuing to explore the growing consumer trend to seek out brands in new categories.
- Refreshed master brand with minor changes in design
- Refreshed artwork of *Matso's Ginger Beer*
- Refreshed artwork of *Matso's Mango Beer*
- Introduced new *Matso's Hard Lemon* in 330ml bottle format


**REDFERN MICROBREWERY AND TAPROOM**

Our first microbrewery and taproom venue in Redfern, NSW, the home of the *Atomic Beer Project*, is also progressing well. Brewing equipment has been ordered and construction works are expected to commence shortly.

We are investing approximately $3 million for the installation of a brewhouse and taproom fit-out of the premises, which will be funded via existing operating cash flows and credit facilities.

Our venue strategy has two primary benefits; to significantly improve awareness of proprietary brands driving increased retail sales on the east coast, and to deliver a standalone financial return. To support our east coast growth strategy, part of the earnings generated by this venue will be re-invested to fund the growth of our Good Drinks team.

This is the first of a number of venues that we plan to establish in key markets Australia-wide in the next few years. The Atomic Beer Project Redern venue is expected to open to the public in Q3 FY20.

**PACKAGING LINE EXTENSION PROGRAM**

On 20 April 2019 we successfully completed an $8m capital raising in order to fund the implementation of a packaging line extension program. The program includes the installation of a new commercial scale canning line, a new high-speed bottle filler and other plant improvements. These improvements provide a new can-format capability for the business and drive increased plant efficiencies that will result in lower operating costs and improved earnings. Of the $8 million expected total capital expenditure, $2 million has been spent in FY19, with the remaining balance due in FY20 and FY21.

The market for beer in can format is in significant growth, currently representing 11% of the craft beer market and growing rapidly at 74% per annum.

The new can filler, bottle filler and plant improvements provide production efficiencies and reduced waste. With this new machinery in place, the Company is targeting additional earnings of $1.5 million to $2.5 million by FY22.The program is well underway and is both on schedule and on budget.

The new equipment is expected to be commissioned in December and is expected to be fully operational by Q3 FY20.

**OUTLOOK FOR FY20**

- Good Drinks brands growth and 5-year strategy on track to deliver margin growth and earnings targets for FY20 and beyond
- Redfern venue expected to be opened early in 2020 and next sites identified
- National chain volumes in line with expectations
- Good Drinks team continues to focus on building a capable, empowered and nationally represented sales team
    - Increased brand-in-hand activity driving consumer awareness on east coast
    - Key account focus on on-premise and off-premise
    - Optimise distributions to maximise this summer's key trading period
    - Implementing state-led teams and state-based programs
    - Strong new-product development agenda
- Continue to explore potential acquisition targets and international opportunities

With a flexible balance sheet, a management team strongly-aligned to shareholders, existing revenue streams secured and enhanced ability to drive revenue and margin growth, we are well placed to deliver growth in earnings and sustained value for our shareholders.

FY19 was again a fantastic year for the business and the team and we're pleased to see that all the key targets we have set as part of the 5-year Proprietary Brand Strategy are being delivered. Awareness for our brands has grown significantly and we look to build on that even further. The investment in the Good Drinks team and sales, distribution and marketing capabilities is delivering great results and we are confident about the prospects for our brands and continued earnings growth for our shareholders.

John Hoedemaker
**Managing Director**

## Directors' Report

Your Directors present their report on Gage Roads Brewing Co Limited (the Company) for the year ended 30 June 2019.

## 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.

| | |
|---|---|
| Graeme Wood | |
| Ian Olson | (Chairman) |
| John Hoedemaker | (Managing Director) |
| Robert Gould | |

## Company Secretary

Marcel Brandenburg

## Principal activities

During the year the principal continuing activities of the Company were the brewing, packaging, marketing and selling of beer, cider and other beverages.

No significant change in the nature of these activities occurred during the year.

## Dividends

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

## Review and results of operations

The profit of the Company for the financial year after providing for income tax amounted to $2,649,386 (2018: $2,063,712).

A review of the Company's operations and its financial position, business strategies and prospects is located at page 5 of this report.

## Significant changes in the state of affairs

Significant changes in the state of affairs of the Company during the financial year were as follows:

(a) **Revenue and Volume** – This year saw an improvement in Revenue for FY19 of $39.7 million, an increase of 20% in comparison with the corresponding full year period (2018: $33.2 million). The combined proprietary brand sales and contract brewing volumes resulted in a total throughput of 13.2 million litres and generated an EBITDA of $5.5 million for FY19, an improvement of 22% over FY18.

## Matters subsequent to the end of the financial year

No subsequent events requiring disclosure have been noted.

## Likely developments and expected results of operations

The Company will continue to brew, sell and market beer, cider and other beverages and continue to expand its distribution.

## Information on Directors

**Graeme Wood**
*(Non-Executive, appointed 5 April 2017)*

*Experience and expertise* - Graeme Wood has significant experience as a senior executive with both Foster's Australia and Treasury Wine Estates. Graeme spent 18 years at Foster's Australia – including as General Manager of Sales at Matilda Bay Brewing Company – where he developed a deep knowledge of the beer landscape in Australia. More recently, he spent four years at Treasury Wine Estates as Regional Manager responsible for WA, SA and NT, further enhancing his liquor retail experience.

*Other current public directorships – None.*

*Former directorships in listed companies within last 3 years - None.*

*Special responsibilities - Member of the Remuneration Committee..*

*Interests (direct and indirect) in shares and options - Nil shares and nil options in the Company.*

**Ian Olson** CA, BCom, MAICD
*(Non-Executive Chairman, appointed 12 November 2007)*

*Experience and expertise* - An experienced Chartered Accountant, Ian Olson brings extensive knowledge in corporate advisory, audit and assurance to the Board. Ian is a professional public company director with a 25-year career in finance and the capital markets. Ian is also the Managing Director of Pointerra Limited and former executive chairman of WKC Spatial. Prior to his involvement in WKC Spatial, Ian was Managing Partner of PKF Chartered Accountants in Western Australia.

*Other current public directorships – Pointerra Ltd.*

*Former directorships in listed companies within last 3 years – Threat Protect Ltd.*

*Special responsibilities - Chairman of the Board, Chairman of the Remuneration Committee, member of the Audit and Risk Committee.*

*Interests (direct and indirect) in shares and options – 12,858,225 shares and nil options in the Company.*

**John Hoedemaker** BCom
*(Director, appointed 3 December 2002, Managing Director, appointed 17 August 2011)*

*Experience and expertise* - John Hoedemaker is a founding Shareholder and Director of Gage Roads since 2002. He has played a key role in achieving profitability by developing and implementing the growth and cost reduction strategies for the business. John has an acute understanding of both the Company's operational needs and financial requirements. John is responsible for the strategic planning, leadership and management of the operations of the Company. Prior to his involvement with Gage Roads, John was a Shareholder, General Manager and Chief Financial Officer of a successful building products manufacturing business, Architectural & Structural Adhesives (WA), which he managed from a start-up operation through to a trade sale to a multi-national conglomerate.

*Other current public directorships - None.*

*Former public directorships within last 3 years - None.*

*Special responsibilities - Member of the Audit & Risk Committee.*

*Interest (direct and indirect) in shares and options – 57,053,994 shares and nil options in the Company.*

**Robert Gould** FAICD
*(Non-Executive, appointed 12 November 2007)*

*Experience and expertise* - Robert Gould has held a number of roles in finance and the management and guidance of start-up, early stage and fast growing companies. His experience includes international mergers and acquisition activity and previous management of a venture capital fund with $113 million under management. Robert was a seed capital investor in Gage Roads in 2003.

*Other current public directorships - None.*

*Former directorships in listed companies within last 3 years - None.*

*Special responsibilities - Chairman of the Audit & Risk Committee and member of the Remuneration Committee.*

*Interests (direct and indirect) in shares and options – 16,259,725 shares and nil options in the Company.*

**Information on Company Secretary**

**Marcel Brandenburg** CA, FGIA, FCIS, MAcc, BCom
*(Company Secretary and Chief Financial Officer)*

Experience and expertise - Marcel Brandenburg has been with the Company since October 2011 in the capacity of Financial Controller and is responsible for the areas of financial accounting, governance and administration aspects of the business. He was appointed Chief Financial Officer on 30 June 2014.

Marcel has extensive experience in dealing with ASX-listed companies, having spent a significant part of his career auditing publicly listed entities. As a Chartered Accountant and Fellow of the Governance Institute of Australia, he has an excellent understanding of financial markets, market compliance and governance. Marcel has also previously held company secretarial roles in a number of unlisted companies.

*Other current public directorships - None.*

*Former public directorships within last 3 years - None.*

*Special responsibilities – Chief Financial Officer.*

*Interest (direct and indirect) in shares and options – 10,129,860 shares and nil options in the Company.*

## Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director, were as follows:

| | Full Meeting of Directors | | Meetings of Audit Committee | | Meetings of Remuneration Committee | |
|---|---|---|---|---|---|---|
| **Directors** | **A** | **B** | **A** | **B** | **A** | **B** |
| Graeme Wood (Non-Executive) | 11 | 11 | n/a | n/a | 1 | 1 |
| Ian Olson (Non-Executive) | 11 | 11 | 2 | 2 | 1 | 1 |
| Robert Gould (Non-Executive) | 11 | 11 | 2 | 2 | 1 | 1 |
| John Hoedemaker (Executive) | 11 | 11 | 2 | 2 | n/a | n/a |

*A = number of meetings held during the time the Director held office or was a member of the committee during the year.*
*B = number of meetings attended.*
*n/a = not a member of the relevant committee.*

## Total shares under options

There were no unissued ordinary shares under option at the date of this report (2018: Nil).

## Shares issued on the exercise of options

There were no shares issued on the exercise of options during the year ended 30 June 2019 (2018: Nil).

## Options granted to Directors

No options over unissued ordinary shares were granted to Directors during the year ended 30 June 2019 (2018: Nil).

## Options granted to Key Management Executives and other employees

No options over unissued ordinary shares were granted to Key Management Executives or other employees during the year ended 30 June 2019 (2018: Nil).

## Options cancelled, forfeited or lapsed

No options were voluntarily forfeited or cancelled during the year ended 30 June 2019 (2018: Nil).

## Shares issued to Directors

No shares were issued to directors during the year ended 30 June 2019 (2018: Nil).

## Shares issued to Employees

21,250,000 shares were issued to employees during the year ended 30 June 2019 (2018: 10,928,160).

## Audited Remuneration Report

The information provided in this report has been audited as required by section 308(3C) of the *Corporations Act 2001.*

### *Principles used to determine the nature and amount of remuneration*

The Remuneration Committee is responsible for determining and reviewing remuneration packages of all Directors and Key Management Personnel ("KMP") on an annual basis. The Remuneration Committee currently consists of Non-Executive Directors Ian Olson and Robert Gould.

The committee's reward policy reflects its obligation to align Director and Executive remuneration with Shareholders' interests and to retain appropriately qualified talent for the benefit of the Company. The main principles of the policy are:

(a) the reward considers comparative industry benchmarks and reflects the competitive market in which the Company operates;

(b) individual reward should be linked to performance criteria if appropriate;

(c) Executives should be rewarded for both financial and non-financial performance; and

(d) the committee shall have access to external professional advice if required to assist in determining appropriate remuneration.

*Statutory Indicators*

We aim to align our executive remuneration to our strategic and business objectives and the creation of shareholder wealth. The table below shows measures of the Groups financial performance over the last five years as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMP's. As a consequence, there may not always be a direct correlation between the statutory performance measures and the variable remuneration awarded.

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Profit attributable to owners of Gage Roads Brewing Co Ltd | 2,649,386 | 2,063,712 | 2,014,112 | 612,353 | (826,821) |
| Basic earnings per share (cents) | 0.26 | 0.24 | 0.27 | 0.15 | (0.21) |
| Increase/(decrease) in share price (%) | -2% | 164% | -13% | 34% | -74% |

*Non-Executive Directors* - The Remuneration Committee is responsible for recommending individual Non-Executive Directors' fees within the limit approved by Shareholders. The current aggregate Directors' fee limit is $400,000. Directors are entitled to have premiums paid for Directors' & Officers' insurance.

*Executives and Executive Directors* - The total remuneration of the Key Management Personnel and Executive Directors consists of the following:

(a) *salary* - the Key Management Personnel and Executive Directors receive a fixed sum payable monthly in cash;

(b) *cash at risk component* - Key Management Personnel and Executive Directors are eligible to participate in a cash bonus plan if deemed appropriate;

(c) *share and option at risk component* - Key Management Personnel and Executive Directors may participate in share and option schemes generally being made in accordance with thresholds set in plans approved by Shareholders if deemed appropriate. The Board, however, considers it appropriate to retain the flexibility to issue shares and options to Key Management Executives and Executive Directors outside of an approved option scheme in exceptional circumstances; and

(d) *other benefits* - Key Management Personnel and Executive Directors are eligible to participate in superannuation schemes, may be entitled to have loss of income insurance paid by the Company, be provided a fully expensed Company car or Company car allowance and be provided a fully expensed mobile phone and other forms of remuneration if deemed appropriate.

There is no Company policy in place at this point in time in relation to prohibiting margin lending against financial instruments granted to Directors or Key Management Personnel.

The objective of the Company's remuneration policy for Directors and other Key Management Personnel is to ensure reward for performance is adequate and appropriate for the results delivered, taking into account competitiveness, reasonableness, acceptability to Shareholders and transparency. Equity instruments issued may be for services rendered by eligible employees and Directors to date and, going forward, for services rendered by existing and any new eligible employees and Directors who are appointed in the future. The Company feels that incentive shares are effective consideration to eligible employees and Directors for their ongoing commitment and contribution to the Company.

An Employee and Executive Share Plan provides some senior executives with incentive over and above their base salary. The allocation of shares under the Employee and Executive Share Plan may not be subject to performance conditions of the Company. The reasons for establishing the Employee and Executive Share Plan were:

(a) To align the interests of senior management with Shareholders. The Employee and Executive Share Plan provides employees with incentive to strive for long term profitability which is in line with Shareholder objectives; and

(b) To provide an incentive for employees to extend their employment terms with the Company. The experience of senior employees is an important factor in the long term success of the Company.

***Details of remuneration***

Details of the remuneration of the Directors and Key Management Personnel (as defined in AASB 124 Related Party Disclosures) of the Company for the financial year are set out in the following tables. The Key Management Personnel of the Company are the following Non-Executive and Executive Directors and officers of the Company:

*Executive Directors*

| | |
|---|---|
| John Hoedemaker | Managing Director |

*Non-Executive Directors*

| | |
|---|---|
| Graeme Wood | |
| Ian Olson | Chairman |
| Robert Gould | |

*Executive Officers*

| | |
|---|---|
| Aaron Heary | Chief Operating Officer and Chief Strategy Officer |
| Marcel Brandenburg | Chief Financial Officer and Company Secretary |

No other employee had authority or responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly, during the financial year.

**2019 Remuneration - Key Management Personnel**

| | **Short term benefits** | | | **Post employment benefits** | **Share based benefits** | | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary & fees | Cash bonus | Non-monetary Benefits | Super-annuation | Shares | Total | Performance based |
| | $ | $ | $ | $ | $ | $ | % |
| *Non-Executive Directors* | | | | | | | |
| Graeme Wood | 75,000 | - | 2,060 | 7,125 | - | 84,185 | 0% |
| Ian Olson | 120,000 | - | 2,060 | - | 12,223 | 134,283 | 9% |
| Robert C Gould | 68,493 | - | 2,060 | 6,507 | 12,223 | 89,283 | 14% |
| *Sub-total Non-Exec Directors* | *263,493* | - | *6,181* | *13,632* | *24,445* | *307,751* | *8%* |
| *Executive Key Management* | | | | | | | |
| Aaron Heary | 280,437 | - | 2,057 | 26,641 | 30,556 | 339,691 | 9% |
| John Hoedemaker (MD) | 390,000 | - | 18,541 | 37,050 | 30,556 | 476,147 | 6% |
| Marcel Brandenburg | 180,000 | 20,000 | 2,527 | 19,991 | 7,659 | 230,177 | 12% |
| *Sub-total Executive* | 850,437 | 20,000 | 23,125 | 83,682 | 68,772 | 1,046,016 | 8% |
| **Totals** | ***1,113,930*** | ***20,000*** | ***29,306*** | ***97,314*** | ***93,217*** | ***1,353,767*** | ***8%*** |

**2018 Remuneration - Key Management Personnel**

| | Short term benefits | | | Post employment benefits | Share based benefits | | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary & fees | Cash bonus | Non-monetary Benefits | Super-annuation | Shares | Total | Performance based |
| | $ | $ | $ | $ | $ | $ | % |
| *Non-Executive Directors* | | | | | | | |
| Graeme Wood | 75,000 | - | 1,838 | 7,125 | - | 83,963 | 0% |
| Ian Olson | 120,000 | - | 1,838 | - | 12,223 | 134,061 | 9% |
| Robert C Gould | 68,493 | - | 1,838 | 6,507 | 12,223 | 89,060 | 14% |
| *Sub-total Non-Exec Directors* | *263,493* | *-* | *5,514* | *13,632* | *24,445* | *307,084* | *8%* |
| *Executive Key Management* | | | | | | | |
| Aaron Heary | 290,000 | - | 1,752 | 27,550 | 30,556 | 349,859 | 9% |
| John Hoedemaker (MD) | 390,000 | - | 14,975 | 37,050 | 30,556 | 472,581 | 6% |
| Marcel Brandenburg | 180,004 | 20,000 | 1,572 | 19,000 | 15,420 | 235,997 | 15% |
| *Sub-total Executive* | 860,004 | 20,000 | 18,299 | 83,600 | 76,533 | 1,058,437 | 9% |
| **Totals** | ***1,123,497*** | ***20,000*** | ***23,813*** | ***97,232*** | ***100,978*** | ***1,365,521*** | ***9%*** |

***Service agreements***

Remuneration and other terms of employment for the following Key Management Personnel are formalised in employment agreements. The significant terms of employment at the date of this report are set out below:

*Aaron Heary – Chief Operating Officer & Chief Strategy Officer*
- Term of agreement: No fixed term
- Base salary: $290,000 pa, plus 9.5% statutory superannuation contribution, reviewed annually by the Remuneration Committee
- Termination notice period: 8 month notice (without cause)
- Termination notice period: 4 month notice (with cause)

*John Hoedemaker – Managing Director*
- Term of agreement: No fixed term
- Base salary: $390,000 pa, plus 9.5% statutory superannuation contribution, reviewed annually by the Remuneration Committee
- Termination notice period: 8 month notice (without cause)
- Termination notice period: 4 month notice (with cause)

*Marcel Brandenburg – Chief Financial Officer and Company Secretary*
- Term of agreement: No fixed term
- Base salary: $180,000 pa, plus 9.5% statutory superannuation contribution, reviewed annually by the Remuneration Committee
- Bonus: $20,000 per annum, payable in equal quarterly instalments of $5,000 subject to satisfactory conformance to key performance indicators as determined by the Managing Director.
- Termination notice period: 8 month notice (without cause)
- Termination notice period: 4 month notice (with cause)
- Updated service agreement in place from 1 July 2019, including base salary of $270,000 pa, plus 9.5% statutory superannuation contribution and no further bonus element.

No Director or Executive is entitled to any termination payments apart from payment in lieu of the notice periods outlined above, remuneration payable up to and including the date of termination and payments due by way of accrued leave entitlements. There are no service agreements in respect of non-executive directors.

### *Equity instruments held by Key Management Personnel*

*Shares issued to key management personnel*

The following tables show the number of ordinary shares in the Company that were held during the financial year by key management personnel of the company, including their close family members and entities related to them.

There were no options over unissued ordinary shares granted to Key Management Personnel in existence at the date of this report (2018: Nil).

*(i) Ordinary shares in the Company*

| | Nominally Held | Balance at start of the year | Net Purchase (Disposal) of shares | Employee Share Plan Shares Received | Balance at end of the year |
|---|---|---|---|---|---|
| **2019** | | | | | |
| ***Directors*** | | | | | |
| Ian Olson | 5% | 12,858,225 | - | - | 12,858,225 |
| John Hoedemaker | 0% | 57,053,994 | - | - | 57,053,994 |
| Robert Gould | 75% | 16,259,725 | - | - | 16,259,725 |
| Graeme Wood | 0% | - | - | - | - |
| ***Executive Key Management*** | | | | | |
| Marcel Brandenburg | 100% | 10,829,860 | (700,000) | - | 10,129,860 |
| Aaron Heary | 0% | 38,262,032 | - | - | 38,262,032 |
| | | 135,263,836 | (700,000) | - | 134,563,836 |

There were no shares issued to Key management personnel during the year 30 June 2019 (2018: Nil).

*Shares issued to Key Management Personnel on the exercise of options*

No ordinary shares were issued during the financial year on the exercise of options granted to Key Management Personnel (2018: Nil).

### *Loan instruments to Key Management Personnel*

The following tables show the non-recourse loan balances provided to Key Management Personnel that are linked to shares issued as part of its Employee and Executive Share Plan.

| 30-Jun-19 | Balance at the start of the year | Loans provided during the year | Loans paid back by the Employee | Interest paid and payable for the year | Interest not charged | Balance at the end of the year |
|---|---|---|---|---|---|---|
| ***Directors*** | | | | | | |
| Ian Olson | 612,986 | - | - | - | - | 612,986 |
| Robert Gould | 612,986 | - | - | - | - | 612,986 |
| John Hoedemaker | 1,904,466 | - | - | - | - | 1,904,466 |
| Graeme Wood | - | - | - | - | - | - |
| ***Executive Key Management*** | | | | | | |
| Aaron Heary | 1,726,872 | - | - | - | - | 1,726,872 |
| Marcel Brandenburg | 577,093 | - | (18,600) | - | - | 558,493 |
| **Total** | **5,434,403** | **-** | **(18,600)** | **-** | **-** | **5,415,803** |

### *Use of remuneration consultants*

The Company did not engage in remuneration consultants during the financial year ended 30 June 2019.

### *Voting and comments made at the Company's 2018 Annual General Meeting*

Gage Roads Brewing Co Ltd received more than 90.6% of "Yes" votes on its remuneration report for the 2018 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

This is the end of the audited remuneration report.

**Loans to Directors and Executives**

The Company has not made any non-recourse loans to Directors or Executives during the financial year to 30 June 2019. It has carried forward non-recourse loans from prior years as disclosed in Note 18 (b).

**Environmental regulation**

The Directors have not been notified and are not aware of any breach of any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the measurement period 1 July 2018 to 30 June 2019 the Directors have assessed that there are no current reporting requirements, but the Company may be required to do so in the future.

**Insurance of officers**

During the financial year the Company paid a premium of $8,241 to insure the Directors and Officers of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

**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.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

**Auditor**

BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

**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 on page 23.

**Non-Audit services**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

*Assurance services*

BDO Audit (WA) Pty Ltd: Audit and review of financial reports and other audit work under the *Corporations Act 2001* $70,946 (2018: $56,363).

*Non-audit services*

BDO Corporate Tax (WA) Pty Ltd: Services in relation to Employee Share Scheme advice $5,000 (2018:$0).

BDO Corporate Finance (WA) Pty Ltd: Services in relation to the preparation of an Independent Expert Report $0 (2018: $8,610).

The Board of Directors, in conjunction with the Audit Committee, has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, and did not compromise these auditor's independence requirements because they did not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

This report is made in accordance with a resolution of Directors, and signed for on behalf of the Board by:

Ian Olson
**Chairman**

Palmyra

Dated this 30th day of August 2019

## Corporate Governance Statement

The Board is committed to achieving and demonstrating high standards of corporate governance. As such Gage Roads Brewing Co Ltd has adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council and became effective for financial years beginning on or after 1 July 2014.

The Company's Corporate Governance Statement for the financial year ending 30 June 2019 was approved by the Board on 30 August 2019. The Corporate Governance Statement can be located on the Company's website: www.gageroads.com.au\investor-info

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Australia

**DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF GAGE ROADS BREWING CO. LTD**

As lead auditor of Gage Roads Brewing Co. Ltd for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Gage Roads Brewing Co. Ltd and the entities it controlled during the period.

**Jarrad Prue**
Director

**BDO Audit (WA) Pty Ltd**

Perth, 30 August 2019

**Gage Roads Brewing Co Limited**
**Directors' Declaration**
**30 June 2019**

The Directors of the Group declare that:

(a) the financial statements comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, and accompanying notes, are in accordance with the *Corporations Act 2001* and other mandatory professional reporting requirements, and;
  (i) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  (ii) give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date.

(b) in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

(c) the Group has included in the notes to the financial statements an explicit and unreserved Statement of Compliance with International Financial Reporting Standards.

(d) the Directors have been given the declarations by the Managing Director and the Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

**Chairman**

Palmyra
Dated this 30th day of August 2019

**Gage Roads Brewing Co Limited**
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**
**For the year ended 30 June 2019**

| | Notes | **2019 $** | 2018 $ |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Sales revenue | | **39,702,824** | 33,223,525 |
| Interest revenue | | **21,011** | 3,465 |
| | 4 | **39,723,835** | 33,226,990 |
| Other income | 4 | **313,868** | 317,540 |
| Foreign Exchange Loss | | **(55,418)** | (6,349) |
| Raw materials, consumables & delivery | | **(14,265,524)** | (13,113,924) |
| Operating expenses | | **(3,816,059)** | (3,560,975) |
| Employee benefit expenses | | **(8,610,381)** | (7,697,811) |
| Depreciation and amortisation expenses | 5 | **(1,432,985)** | (1,238,204) |
| Sales and marketing expenses | | **(6,429,446)** | (3,446,233) |
| Administration expenses | | **(589,212)** | (458,765) |
| Occupancy expenses | 5 | **(749,270)** | (774,577) |
| Finance costs | 5 | **(138,303)** | (96,126) |
| **Profit before income tax** | | **3,951,105** | 3,151,566 |
| Income tax expense | 6 | **(1,301,719)** | (1,087,854) |
| **Net Profit attributable to the members of Gage Roads Brewing Co Ltd** | | **2,649,386** | 2,063,712 |
| *Other Comprehensive Income* | | | |
| Items that may be reclassified to profit or loss: | | | |
| Change in the fair value of Cashflow Hedges | | **166,860** | 256,958 |
| *Total Other Comprehensive Income for the year* | | **2,816,246** | 2,320,670 |
| **Profit per share attributable to the members of Gage Roads Brewing Co Ltd** | | | |
| Basic Profit per share (cents) | 16 | **0.26** | 0.24 |
| Diluted Profit per share (cents) | 16 | **0.25** | 0.23 |

*The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.*

## Gage Roads Brewing Co Limited
## Consolidated Statement of Financial Position
## As at 30 June 2019

| | Notes | **2019** **$** | 2018 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | **9,270,630** | 16,889,229 |
| Trade and other receivables | 8 | **11,144,684** | 4,441,134 |
| Inventories | 9 | **2,852,137** | 2,613,602 |
| Total current assets | | **23,267,451** | 23,943,965 |
| | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **25,708,586** | 22,740,990 |
| Deferred tax assets | 6 | **-** | 786,489 |
| Intangible assets | 11 | **14,407,955** | 118,813 |
| Total non-current assets | | **40,116,541** | 23,646,292 |
| | | | |
| **Total assets** | | **63,383,992** | 47,590,257 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **10,263,533** | 8,904,740 |
| Deferred consideration | 3 | **1,200,000** | - |
| Provisions | 12 | **364,600** | 277,573 |
| Current tax liability | 12 | **515,231** | - |
| Borrowings | 12 | **-** | - |
| Total current liabilities | | **12,343,363** | 9,182,313 |
| | | | |
| **Non-current liabilities** | | | |
| Provisions | | **-** | 83,756 |
| Total non-current liabilities | | **-** | 83,756 |
| | | | |
| **Total liabilities** | | **12,343,363** | 9,266,069 |
| | | | |
| **Net assets** | | **51,040,629** | 38,324,188 |
| | | | |
| **EQUITY** | | | |
| Contributed equity | 13 | **52,711,850** | 43,042,933 |
| Hedge reserve | 14 | **82,440** | (84,420) |
| Share options reserve | 14 | **2,048,490** | 1,817,212 |
| Accumulated profit/losses | 14 | **(3,802,151)** | (6,451,538) |
| **Total equity** | | **51,040,629** | 38,324,188 |

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

**Gage Roads Brewing Co Limited**

**Consolidated Statement of Changes in Equity**

**For the year ended 30 June 2019**

| | Notes | Contributed equity $ | Accumulated losses $ | Share based payment reserve $ | Hedge Reserve $ | Total equity $ |
|---|---|---|---|---|---|---|
| **At 1 July 2017** | | 33,742,064 | (8,515,248) | 1,537,750 | (341,378) | 26,423,188 |
| **Comprehensive Income** | | | | | | |
| Profit for the year | | - | 2,063,711 | - | - | 2,063,711 |
| Other Comprehensive income | | - | - | - | 256,958 | 256,958 |
| **Total comprehensive income for the year** | | **-** | **2,063,711** | **-** | **256,958** | **2,320,669** |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | | |
| Issue of share capital, net of transaction costs | | 9,300,869 | - | - | - | 9,300,869 |
| Employee and other share options expensed | 14 | - | - | 279,463 | - | 279,463 |
| **At 30 June 2018** | | **43,042,933** | **(6,451,537)** | **1,817,213** | **(84,420)** | **38,324,188** |
| **Comprehensive Income** | | | | | | |
| Profit for the year | | - | 2,649,386 | - | - | 2,649,386 |
| Other Comprehensive income | | - | - | - | 166,860 | 166,860 |
| **Total comprehensive income for the year** | | **-** | **2,649,386** | **-** | **166,860** | **2,816,246** |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | | |
| Issue of share capital, net of transaction costs | | 9,668,917 | - | - | - | 9,668,917 |
| Employee and other share options expensed | 14 | - | - | 231,276 | - | 231,276 |
| **Balance at 30 June 2019** | | **52,711,850** | **(3,802,151)** | **2,048,490** | **82,440** | **51,040,629** |

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## Gage Roads Brewing Co Limited
## Consolidated Statement of Cash Flows
## For the year ended 30 June 2019

| | Notes | **2019** **$** | 2018 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | **60,571,476** | 53,612,900 |
| Payments to suppliers and employees (inclusive of GST) | | **(60,088,795)** | (48,518,565) |
| | | **482,681** | 5,094,335 |
| Interest received | | **21,011** | 3,464 |
| Interest paid | | **(138,303)** | (96,126) |
| **Net cash inflow from operating activities** | 15 | **365,389** | 5,001,673 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(4,420,766)** | (2,141,772) |
| Payments for intangible assets | | **(13,118,050)** | (114,997) |
| Proceeds (Payments) from Sale of Equipment | | **(26)** | 16 |
| **Net cash (outflow) from investing activities** | | **(17,538,842)** | (2,256,752) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of share capital | | **10,099,496** | 10,031,000 |
| Share issue transaction costs | | **(430,579)** | (730,131) |
| Proceeds from borrowings | | **3,324,186** | 6,096 |
| Repayment of borrowings | | **(3,283,178)** | (2,050,955) |
| **Net cash inflow from financing activities** | | **9,709,925** | 7,256,010 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(7,463,528)** | 10,000,929 |
| Effect of movement in exchange rates on cash held | | **(155,071)** | (97,874) |
| Cash and cash equivalents at the beginning of the financial year | | **16,889,229** | 6,986,173 |
| **Cash and cash equivalents at the end of the financial year** | 7 | **9,270,630** | 16,889,229 |

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.*

## Note 1 Summary of Significant Accounting Policies

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

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001. This Group is a for-profit Group for the purpose of preparing the Financial Statements.

*Principles of Consolidation*
The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Gage Roads Brewing Co. Limited at the end of the reporting period. A controlled entity is any entity over which Gage Roads Brewing Co. Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the period, the financial performance of those entities are included only for the period that they were controlled. A list of controlled entities is listed below:
- Matsos Broome Brewing Pty Ltd
- Regent Street Hospitality Pty Ltd

In preparing the consolidated financial statements, all inter-Group balances and transactions between entities in the consolidated Group have been eliminated in full on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the Equity section of the Consolidated Statement of Financial Position and

*Subsidiaries*
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at amortised cost in the Company's financial statements.

*Transactions eliminated on consolidation*
Intra-Group balances, and any unrealized gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

*Identifiable intangible assets*
Intangible assets acquired separately or in a business combination are initially measured at the lower of cost or fair value cost at the time of acquisition when it is probable that the future economic benefits arising as a result of the costs incurred will flow to the Group. The Group assesses identifiable intangible assets as having either finite or indefinite useful lives.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment at least twice a year or whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method are reviewed at least each financial year end.

## Note 1 Summary of Significant Accounting Policies

*Asset acquisition*
Where an acquisition does not meet the definition of a business combination the transactions is accounted for as an asset acquisition. The consideration transferred for the acquisition of an asset comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs with regards to the acquisition are capitalised. Identifiable assets acquired and liabilities assumed in the acquisition are measured initially at cost and if not available their fair values at the acquisition date.

*Compliance with IFRS*
The financial statements of Gage Roads Brewing Co Ltd also complies with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

*Historical cost convention*
These Financial Statements have been prepared under the historical cost convention.

**Critical Accounting Estimates and Significant Judgements**

The preparation of Financial Statements in conformity with AIFRS 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.

*i) 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 the 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. For details of share-based payments made during the year, see Note 17.

*ii) Going concern*
The financial report has been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

*iii) Estimation of useful lives of assets*
The consolidated entity 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 estimates lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

*iv) Indefinite life intangible assets*
As part of the asset acquisition the Company acquired an intangible asset being the Matso's Brand. Consideration and significant judgement has been applied by the Group in determining that the Matsos brand has an indefinite useful life in accordance with AASB 138 Intangible Assets. The Group will assess the useful life of this asset at least every reporting date or more frequently if events or changes in circumstances indicate a finite useful life.

## Note 1 Summary of Significant Accounting Policies

*v) Impairment of non-financial assets and other indefinite life intangible assets*
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether indefinite life intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on current cost of capital and growth rates of the estimated future cash flows.

During the year, there were no impairment triggers that would suggest that the carrying value of these assets exceeded its recoverable amount.

*vi) Asset vs. business combination*
The acquisition of Matsos Broome Brewing Pty Ltd ("Matso's") does not meet the definition of a business combination and as such the transaction has been accounted for as an asset acquisition.
When an asset acquisition does not constitute a business combinations, the assets and liabilities are assigned a carrying amount based on their relative fair values in an asset purchase transaction and no deferred tax will arise in relation to the acquired assets and assumed liabilities as the initial recognition exemption for deferred tax under AASB 112 applies. No goodwill will arise on the acquisition and transaction costs of the acquisition will be included in the capitalised cost of the asset.

*vii) Contingent consideration*
Management have applied significant judgements in determining the recognition and/or probabilities of the contingent consideration payable on the asset acquisition of Matsos Broome Brewing Pty Ltd. Refer to note 3 for further details.

*viii) Trade receivables*
The Company has a credit risk concentration in trade receivables with respect to national wholesalers and Woolworths Ltd, through their purchasing of large quantities of goods. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

The Group has applied the simplified approach to measuring expected credit losses, which uses an expected lifetime expected loss allowance, the Group’s expected credit loss assessment as at 30 June 2019 was considered to be immaterial to the balance of Trade and Other Receivables as disclosed in Note 8.

### (b) Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director and members of the Board of Management.

### (c) Revenue recognition
Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable component, the Group estimates the expected consideration for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting period.
The Group primarily generates revenue from the sale of alcoholic beverages.

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:

- physical possession and inventory risk is transferred (including via a third-party transport provider);
- payment terms for the sale of goods can be clearly identified through invoices issued to customers; and
- the customer has no practical ability to reject the product where it is within contractually specified limits.

## Note 1 Summary of Significant Accounting Policies

### (d) Income tax

The income tax expense or revenue for the period is the tax payable on the current period’s taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### (e) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease.

### (f) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (g) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid instruments 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, and bank overdrafts.

## Note 1 Summary of Significant Accounting Policies

### (h) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowance for doubtful debts.

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group considers a financial asset in default when contractual payment are > 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

### (i) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials for work-in-progress and finished goods. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. 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.

### (j) Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade receivables in the Consolidated Statement of Financial Position (Note 8).

Regular purchases and sales of financial assets are recognised on trade-date, i.e. when committed. Financial assets are de-recognised when the rights to receive the cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

**Note 1 Summary of Significant Accounting Policies**

**(k) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**(l) Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. Depreciation is calculated using both the straight line and reducing balance methods to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| Brewery, plant & equipment | 3.33% - 30% |
| Office equipment | 7.50% - 50% |
| Motor vehicles | 13.64% - 18.75% |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(f)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Financial Performance.

**(m) Intangible assets**

*Trademarks*

Trademarks are treated as having an indefinite useful life because they are expected to contribute to the net cash flows indefinitely. Therefore, the trademarks would not be amortised until their useful life is determined to be finite. They would be individually tested for impairment in accordance with AASB 136 annually and whenever there is an indication that any of the trademarks may be impaired. They are carried at cost.

*Brand*

Brand costs are treated as having an indefinite useful life because they are expected to contibute to the net cashflows indefinitely. Therefore brand costs will not be amortised until their useful life is determined to be finite. They would be individually tested for impairment in accordance with AASB 136 annually and whenever there is an indication that any of the brands may be impaired. They are carried at cost.

*Product Development*

Product Development costs are carried at cost less amortisation. Amortisation is calculated on a straight-line basis over the assets estimated useful life of 2 years.

Costs incurred in developing products will contribute to future period revenue generation. Costs capitalised include external direct costs of materials and services.

## Note 1 Summary of Significant Accounting Policies

### (n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. They are recognised initially at fair value and subsequently at amortised cost.

### (o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### (p) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### (q) Employee benefits

*(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experiences of employee departures and periods of service.

*(iii) Share-based payments*

The fair value of options at grant date is determined using a Black-Scholes or Binomial option pricing model that takes into account the exercise price, term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of the options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received are credited to share capital.

### (r) Contributed equity

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 from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of acquisition as part of the purchase consideration.

## Note 1 Summary of Significant Accounting Policies

### (s) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated goods and services tax (GST), unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of 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 taxation authority is included with other receivables or 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 taxation authority, are presented as operating cash flows.

### (t) Foreign currency

The functional and presentational currency of the Group is the Australian dollar. Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

### (u) Earnings per share

*Basic earnings per share*

This is calculated by dividing the profit or loss attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

### (v) Excise Tax

As of the 1 July 2008 the Group has adopted an accounting treatment which accounts for Excise Tax as monies received on behalf of a third party and not as revenue. Excise tax collected is accounted for as a current liability until it is paid on a weekly basis.

### (w) Provisions

Provisions for legal claims and other obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and amount has been reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

### (x) Share based payment transactions

*Employees and Directors*

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 with the recognition of the expense accounted for over the vesting period. The fair value is determined by an internal valuation using Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted.

Key inputs to the Black Scholes options pricing model include the expected price volatility and risk free interest rate. The expected price volatility is based on the historical volatility adjusted for any expected changes to future volatility due to publicly available information. The risk interest is the risk free rate of securities with comparable terms to maturity.

## Note 1 Summary of Significant Accounting Policies

### (y) New and amended standards and interpretations adopted by the Company

AASB 15 Revenue from contracts with Customers replaces AASB 118 Revenue. AASB 15 was adopted by the Group on 1 July 2018. AASB 15 provides a single, principles-based five-step model to be applied to all contracts with customers.

The Group has considered AASB 15 in detail and determined that the impact on the Group's sales revenue from contracts under AASB 15 is insignificant for the year.

The Group's new revenue accounting policy is detailed below:

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

The Group primarily generates revenue from the sale of alcoholic beverages.

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:

- physical possession and inventory risk is transferred (including via a third-party transport provider);
- payment terms for the sale of goods can be clearly identified through invoices issued to customers; and
- the customer has no practical ability to reject the product where it is within contractually specified limits.

### (z) New standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2019. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

*(i) AASB 16 Leases*
The AASB has issued this new standard which eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its Statement of Financial Position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117. The impact of this adoption is currently in the process of being assessed by the Company however, the impact has not yet been quantified. The Company will adopt this standard from 1 July 2019.

*(ii) New standards and interpretations not expected to have a significant impact*
The following standards are not yet effective and are not expected to have a significant impact on the Company's financial statements:

| **Standard / Interpretation** | **Effective for annual reporting periods beginning on or after** | **Expected to be initially applied in the financial year ending** |
|---|---|---|
| AASB 3 'Amendments to Australian Accounting Standards – Business Combinations' | 1 January 2020 | 30 June 2020 |
| AASB 112 'Amendments to Australian Accounting Standards - Income Taxes | 1 January 2020 | 30 June 2020 |
| AASB 123 'Amendments to Australian Accounting Standards - Borrowing Costs' | 1 January 2020 | 30 June 2020 |

## Note 2 : Financial Risk Management

The Company's activities expose it to a variety of financial risks, market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Company'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 Company.

Risk management is carried out by the management team under policies approved by the Board of Directors. Details of policies for each risk are detailed below.

**Fair Value Measurement**
The Carrying Value and Fair Value of financial assets and financial liabilities, both recognised and unrecognised at reporting date, are as follows:

| | **2019** | **2019** | 2018 | 2018 |
|---|---|---|---|---|
| | **$** | **$** | $ | $ |
| | **Fair Value** | **Carrying Value** | Fair Value | Carrying Value |
| **Financial assets** | | | | |
| Cash and cash equivalents | **9,270,630** | **9,270,630** | 16,889,229 | 16,889,229 |
| Trade and other receivables | **11,144,684** | **11,144,684** | 4,441,134 | 4,441,134 |
| | **20,415,314** | **20,415,314** | 21,330,363 | 21,330,363 |
| **Financial liabilities at amortised cost** | | | | |
| Trade and other payables | **12,343,364** | **12,343,364** | 9,459,886 | 9,459,886 |
| | **12,343,364** | **12,343,364** | 9,459,886 | 9,459,886 |

**(a) Market risk**

(i) *Foreign exchange risk*

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Company does not have any significant exposure to foreign exchange risk.

(ii) *Price risk*

The Company does not have any investments classified as available-for-sale or at fair value through profit or loss and therefore does not have any exposure to price risk.

(iii) *Cash flow interest rate risk*

Refer to (d) over page.

**(b) Credit risk**

Credit risk arises in relation to cash and cash equivalents and deposits with financial institutions (Credit Rating: AA-). Cash transactions are limited to high credit quality financial institutions.

Credit risk also arises in relation to trade receivables. The Company only has a credit risk concentration in trade receivables with respect to national wholesalers and Woolworths Ltd, through their purchasing of large quantities of goods. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Refer to Note 8 for the Company's assessment of past due trade receivables. The maximum exposure to credit risk is the carrying amount of the financial assets as disclosed above.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities or Shareholder support. The Company has a committed credit facility of $5 million with the Commonwealth Bank of Australia which is undrawn at year-end. Furthermore, the Company has a $1million revolving credit facility with Commonwealth Bank of Australia which is undrawn at 30 June 2019. The Company has relied on equity raising and prudent management to manage this risk.

**Note 2 : Financial Risk Management (continued)**

| 2019 | < 1 year | 1 - 2 years | 2 - 5 years | Total Cash flows | Carrying Value |
|---|---|---|---|---|---|
| Trade payables | 6,560,200 | - | - | 6,560,200 | 6,560,200 |
| Other payables | 5,783,164 | - | - | 5,783,164 | 5,783,164 |
| Total Payable | 12,343,364 | - | - | 12,343,364 | 12,343,364 |

| 2018 | < 1 year | 1 - 2 years | 2 - 5 years | Total Cash flows | Carrying Value |
|---|---|---|---|---|---|
| Trade payables | 5,986,878 | - | - | 5,986,878 | 5,986,878 |
| Other payables | 3,195,435 | 83,756 | - | 3,279,191 | 3,279,191 |
| Total Payable | 9,182,313 | 83,756 | - | 9,266,069 | 9,266,069 |

**(d) Cash flow interest rate risk**

The Company's interest-bearing assets are at floating interest rates, thereby exposing the Company to cash flow interest-rate risk through changes in market interest rates. The Company policy is to accept this risk by linking in deposit terms with funding requirements and market interest rates available for different terms.

As at 30 June 2019, if interest rates had changed by 100 basis points (based on indicative forward cash rates) from the year-end rates and all other variables held constant, the profit for the year would have been $63,171 higher/lower (2018: $41,219 higher/lower) from interest income on cash and cash equivalents, based upon the average cash on hand balance of $6,317,094 (2018: $4,121,884).

All of the Company's long term borrowings are at a fixed interest rate and as such there is no risk to the Company's interest payments and operational cash flows arising from those liabilities.

As at 30 June 2019, if interest rates had changed by 100 basis points (based on indicative forward cash rates) from the year-end rates and all other variables held constant, the profit for the year would have been $12,500 higher/lower (2018: $78) from interest expense on borrowings, based upon the average loan balance of $1,250,000 (2018: $93,151).

## Note 3 : Asset Acquisition of Matsos Broome Brewing Pty Ltd

In September 2018 Gage Roads Brewing Co. Ltd. ("GRB") completed the acquisition of 100% of the issued share capital of Matsos Broome Brewing Pty Ltd ("Matso's") (Refer Note 1a). The acquisition represents a major expansion of the Gage Roads brand portfolio and an opportunity to leverage the Groups existing national sales, marketing and distribution capability to deliver sustained earnings growth. Details of the purchase consideration and net assets acquired:

| | $ |
|---|---|
| Purchase consideration: | |
| Cash paid | 13,116,185 |
| Plus direct transaction costs | 642,806 |
| Plus Year 1 Milestone Consideration (probable) | 1,200,000 |
| Total Purchase Consideration | 14,958,991 |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair Value $ |
|---|---|
| Inventories | 866,185 |
| Property, plant and equipment | 113,649 |
| Intangible brand asset | 14,129,157 |
| Accruals | ( 150,000) |
| | 14,958,991 |

In the event that certain pre-determined sales volumes of Matso's products are achieved by each milestone period, a contingent consideration of up to $2,800,000 may be payable in cash or via the issue of Gage Roads Brewing Co. Ltd shares.
Year 1 Milestone Consideration: 15,000,000 shares or $1.2 million cash based on sales volume targets
Year 2 Milestone Consideration: 15,000,000 shares or $1.2 million cash based on sales volume targets
Year 3 Milestone Consideration: 5,000,000 shares based on sales volume targets

As at 30 June 2019, Gage Roads Management consider the Year 1 Milestone contingent consideration probable, based on sales volumes for the first ten months of operating results. The year 2 and 3 milestone consideration is considered possible. The sales volume position will be re-assessed as at 31 December 2019 to determine if the contingent consideration linked with the Year 2 & Year 3 milestone has become probable, at which time an estimated liability and corresponding increase to the intangible asset value would be recognised (refer note 1a).

## Note 4 : Revenue

| | 2019 $ | 2018 $ |
|---|---|---|
| *Revenue* | | |
| Sale of goods | **60,294,212** | 47,942,075 |
| Less: Excise tax collected | **( 19,630,427)** | ( 13,769,821) |
| Less: Wine Equalisation Tax Collected | **( 960,961)** | (948,729) |
| Interest | **21,011** | 3,464 |
| | **39,723,835** | 33,226,990 |
| *Other income* | | |
| ATO Micro-Brewery Excise Refund | **30,000** | 30,000 |
| Warehousing Services | **35,199** | 135,092 |
| Insurance Income | **6,910** | - |
| Other | **241,759** | 152,448 |
| | **313,868** | 317,540 |

## Note 5 : Expenses

| | 2019 $ | 2018 $ |
|---|---|---|
| **Profit (loss) before income tax includes the following specific expenses:** | | |
| *Depreciation* | | |
| Plant and equipment | **1,294,055** | 1,148,655 |
| Office equipment | **105,662** | 62,527 |
| Motor vehicles | **4,360** | 5,108 |
| Amortisation of intangible assets | **28,908** | 21,914 |
| Total Depreciation | **1,432,985** | 1,238,204 |
| *Bad Debt Expense* | | |
| Bad debts written off | **5,331** | 4,451 |
| Bad Debts Expensed | **5,331** | 4,451 |
| *Finance costs* | | |
| Interest and finance charges paid/payable | **138,303** | 96,126 |
| Finance costs expensed | **138,303** | 96,126 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | **749,270** | 774,577 |
| Total rental expense relating to operating leases | **749,270** | 774,577 |
| *Defined contribution superannuation expense* | | |
| Defined contribution superannuation expense | **659,668** | 577,743 |
| Total defined contribution superannuation expense | **659,668** | 577,743 |
| *Share-based payments expense (Note 17)* | | |
| Non-recourse loan-funded shares | **231,278** | 279,463 |
| Total share-based payments expense | **231,278** | 279,463 |

## Note 6 : Income tax expense

| | 2019 $ | 2018 $ |
|---|---|---|
| **(a) Income tax expense** | | |
| Current tax | **515,230** | 1,087,854 |
| Deferred tax - origination of temporary differences | **786,489** | - |
| | **1,301,719** | 1,087,854 |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit before income tax expense | **4,466,336** | 3,151,565 |
| Tax at the Australian tax rate of 30% (2018 - 30%) | **1,339,901** | 945,469 |
| Tax effect of amounts which are not deductible (taxable) in | | |
| Share-based payments | **69,383** | 83,839 |
| Fines and entertaining | **47,004** | 58,546 |
| | **1,456,289** | 1,087,854 |
| Income tax expense | **1,456,289** | 1,087,854 |
| **(c) Unrecognised tax losses** | | |
| Unused tax losses for which no deferred tax asset has been recognised | **-** | - |
| Potential tax benefit @ 30% | **-** | - |

## Note 6 : Income tax expense (continued)

| | 2019 $ | 2018 $ |
|---|---|---|
| **(c) Recognised tax losses** | | |
| Unused tax losses for which a deferred tax asset has been recognised | **-** | 2,621,630 |
| Current tax asset / (liability) @ 30% | **-** | 786,489 |
| | | |
| **Movement in Deferred tax asset** | | |
| Recognition of deferred tax asset - prior year losses | **-** | - |
| - current year profit | **786,488** | 1,087,854 |
| | **786,488** | 1,087,854 |

Deferred tax assets and liabilities have previously been brought to account after considering the level of tax losses carried forward and available to the Group against future taxable profits and the probability within the future that taxable profits will be available against which the benefit of the deductible temporary differences can be claimed. During the year the Group utilised the remaining deferred tax assets on carried forward tax losses.

## Note 7 : Current assets - Cash and cash equivalents

| | 2019 $ | 2018 $ |
|---|---|---|
| Cash at bank and in hand | **9,270,630** | 16,889,229 |
| | **9,270,630** | 16,889,229 |

**(a) Reconciliation to cash at the end of the year**
The above figure agrees to cash at the end of the financial year as shown in the statement of cash flows.

**(b) Cash at bank and on hand**
The cash at bank and in hand balances above bear interest rates of between 0% and 1%.

Refer Note 2 for assessment of company risk management policy

## Note 8 : Current assets - Trade and other receivables

| | 2019 $ | 2018 $ |
|---|---|---|
| Trade receivables | **8,750,123** | 2,774,491 |
| Prepayments | **2,394,561** | 1,666,644 |
| | **11,144,684** | 4,441,134 |

**(a) Impaired trade receivables**
Due to their short-term nature, the fair value of receivables approximates their carrying value. The maximum exposure to credit risk is their carrying value above. The Company only has a credit risk concentration with respect to its major customers. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. See Note 2 for more information on the risk management policy of the Company.

The Group has applied the simplified approach to measuring expected credit losses, which uses an expected lifetime expected loss allowance.

**(b) Interest rate risk**
There are no interest-bearing balances in receivables, therefore the Company has no interest rate risk.

## Note 8 : Current assets - Trade and other receivables (continued)

### (c) Past due but not impaired

As of 30 June 2019, trade receivables of $173,475 (2018 - $297,227 ) were past due but not impaired. These relate to a number of unrelated customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Up to 3 months | **162,814** | 164,131 |
| 3 to 6 months | **10,661** | 133,097 |
| | **173,475** | 297,228 |

### (d) Fair value and credit risk

Due to their short-term nature, the fair value of receivables approximates their carrying value. The maximum exposure to credit risk is their carrying value above. The Company only has a credit risk concentration with respect to its major customers. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. See Note 2 for more information on the risk management policy of the Company.

## Note 9 : Current assets - Inventories

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Raw material and stores - at cost | **1,301,942** | 1,359,293 |
| Work-in-progress - at cost | **258,867** | 109,968 |
| Finished goods - at cost | **849,650** | 783,435 |
| Other | **441,678** | 360,906 |
| | **2,852,137** | 2,613,602 |

### Inventory expense

Inventories recognised as an expense (cost of goods sold) during the year ended 30 June 2019 amounted to $13,145,631 (2018: $13,229,225). Inventories written off during the year as new product development costs, obsolete stock and operational waste amounted to $187,869 (2018: $110,142).

## Note 10 : Non-current assets - Property, plant and equipment

| | Plant and equipment | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|
| **Year ended 30 June 2018** | | | | |
| Opening net book amount | 21,584,782 | 80,648 | 29,433 | 21,694,863 |
| Additions | 2,151,462 | 112,341 | - | 2,263,803 |
| Depreciation charge | (1,148,655) | (62,527) | (5,108) | (1,216,290) |
| Impairment Charge on obsolete | - | - | - | - |
| equipment | - | - | - | - |
| Disposals | - | (1,385) | - | (1,385) |
| Closing net book amount | 22,587,589 | 129,077 | 24,325 | 22,740,990 |
| **At 30 June 2018** | | | | |
| Cost or fair value | 30,554,658 | 530,674 | 239,787 | 31,325,119 |
| Accumulated depreciation | (7,967,069) | (401,597) | (215,462) | (8,584,129) |
| Net book amount | 22,587,589 | 129,077 | 24,325 | 22,740,990 |
| **Year ended 30 June 2019** | | | | |
| Opening net book amount | 22,587,589 | 129,077 | 24,325 | 22,740,990 |
| Additions | 4,232,636 | 136,955 | - | 4,369,591 |
| Depreciation charge | (1,294,055) | (103,581) | (4,360) | (1,401,996) |
| Impairment charge on obsolete equipment | - | - | - | - |
| Disposals | - | - | - | - |
| Closing net book amount | 25,526,170 | 162,451 | 19,965 | 25,708,586 |
| **At 30 June 2019** | | | | |
| Cost or fair value | 34,787,294 | 667,629 | 239,787 | 35,694,710 |
| Accumulated depreciation | (9,261,124) | (505,178) | (219,822) | (9,986,124) |
| Net book amount | 25,526,170 | 162,451 | 19,965 | 25,708,586 |

### (a) Assets in the course of construction

The carrying value of assets disclosed above include the following expenditure recognised in relation to plant and equipment which is in the course of construction. The balance can be primarily attributed to the Brewery site works in preparation for the Canning Line installation and the Refern Microbrewery/Taproom. As it is not yet available for use, this plant and equipment has not commenced depreciating.

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Plant and equipment | **2,617,233** | 818,896 |

### (b) Non-current assets pledged as security.

Refer to note 12 for information on non-current assets pledged as security by the Company.

## Note 11 : Non-current assets - Intangible assets

| | 2019 | 2018 |
|---|---|---|
| **Intellectual Property Assets** | **$** | $ |
| Intellectual property | 439,002 | 303,886 |
| Accumulated amortisation of intellectual property | (302,484) | (273,576) |
| **Total intellectual property** | **136,518** | 30,310 |
| | | |
| **Intangible Brand Asset** | **$** | $ |
| Matso's intangible brand asset | 14,129,157 | - |
| **Total Intangible Brand Assets** | **14,129,157** | - |
| | | |
| **Intangible Development Assets** | **$** | $ |
| New product development assets | 142,280 | 88,503 |
| **Total Intangible Development Assets** | **142,280** | 88,503 |
| **Total Intangible Assets** | **14,407,955** | 118,813 |

As part of Matso's asset acquisition disclosed within Note 3, the Group acquired an intangible brand asset to the value of $14,129,157. The Group has recognised the intangible asset as having an indefinite useful life and will periodically assess the assets for indicators of impairment as disclosed within the critical accounting judgements, estimates and assumptions note 1.

The recoverable amount of the CGU which was tested for impairment has been determined using the value in use method. Value in use has been derived by calculating the discounted value of net cash flows expected to be delivered from the CGU.

Value in use has been based on a five year forecast with terminal values calculated to simulate the value of cash flows beyond that period. Cash flows for the year ended 30 June 2020 were estimated based on the board approved budget for that period.

The value in use model used the following key assumptions:

| | 2019 |
|---|---|
| Short term growth rate | 5.6% |
| Long term growth rate | 0.0% |
| Capital expenditure invested to sustain operational growth | 20% |
| Discount rate | 11.52% |

Management have considered and assessed the sensitivities associated with the assumptions and rates utilised above and are of the opinion that any reasonable movements in the value in use inputs, would not result in any intangible asset impairment.

**Note 12 : Current & Non-Current Liabilities - Trade, other payables, provisions and current tax liability**

**Trade and other payables**

| | 2019 | 2018 |
|---|---|---|
| | **$** | $ |
| Trade payables | **6,314,932** | 5,773,289 |
| Payables for capital purchases | **245,268** | 213,589 |
| GST payable | **472,625** | 397,196 |
| Current tax liability | **515,231** | - |
| Other payables (a) | **4,430,708** | 2,798,239 |
| Provision for long service leave | **364,600** | 277,573 |
| | **12,343,364** | 9,459,886 |

**(a) Amounts not expected to be settled within one year**

Other payables include accruals for annual leave. The entire obligation is expressed as a current liability as the Company does not have an unconditional right to defer settlement. However, based on past experience, the Company does not expect all employees to take the full amount of accrued leave within the next 12 months. The estimated leave that is not expected to be taken in the next twelve months is $150,000 (2018: $100,000). This is considered to be immaterial.

**(b) Risk exposure**

Information about associated liquidity and fair value risk is set out in Note 2.

**(c) Bank Loan**

The Company has a committed credit facility of $6 million with the Commonwealth Bank of Australia which is undrawn at the year end.

**(d) Risk exposure**

Details of the Companies exposure to risks arising from current and non-current borrowings are set out in note 2.

**(e) Fair value disclosures**

The fair value of borrowings for the Company are consistent with their carrying values above due to their short term nature.

**(f) Assets pledged as security**

The carrying amounts of assets pledged as security for current and non-current borrowings are:

| | 2019 | 2018 |
|---|---|---|
| | **$** | $ |
| *Fixed & Floating charges* | | |
| Plant and equipment | **25,688,622** | 22,716,665 |
| Motor vehicles | **19,965** | 24,325 |
| *Total Fixed & Floating charges* | **25,708,586** | 22,740,990 |
| Total assets pledged as security | **25,708,586** | 22,740,990 |

## Note 13 : Contributed equity

| | 2019 Shares | 2018 Shares | 2019 $ | 2018 $ |
|---|---|---|---|---|
| **(a) Share Capital** | | | | |
| Fully paid ordinary shares | **1,106,257,848** | 988,026,855 | **52,711,850** | 43,042,933 |
| | **1,106,257,848** | 988,026,855 | **52,711,850** | 43,042,933 |
| | | | | |
| **(b) Movement in contributed equity:** | | | | |
| **1 July (opening balance)** | **988,026,855** | 859,451,637 | **43,042,933** | 33,742,064 |
| *Issues of shares during the year* | | | | |
| Ordinary shares issued (Employee shares) | **22,500,000** | 10,928,160 | **-** | - |
| Ordinary shares issued | **107,739,888** | 117,647,058 | **10,099,496** | 10,031,000 |
| Shares cancelled | **(12,008,895)** | - | **-** | - |
| Capital Raising Costs | **-** | - | **(430,579)** | (730,131) |
| **30 June (closing balance)** | **1,106,257,848** | 988,026,855 | **52,711,850** | 43,042,933 |

At 30 June 2019 there were 1,106,257,848 ordinary shares on issue.

**Ordinary shares**

Ordinary shares have no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

**Capital risk management**

The Company's objectives when managing capital is to maintain an ability to trade profitably, so that they can provide returns for shareholders and benefits for other stakeholders and to reduce the cost of capital.

In order to maintain or adjust its capital structure, the Company may seek to issue new shares and/or debt. Capital is monitored on its ability to fund the Company's objectives. Capital ratios monitored by management are those reported to the Company's financiers as part of its facility agreements (interest coverage, net tangible assets).

## Note 14 : Reserves and accumulated losses

| | 2019 $ | 2018 $ |
|---|---|---|
| **(a) Share based payment reserve** | | |
| Movements in share based payment reserve were as follows: | | |
| Balance 1 July | **1,817,213** | 1,537,750 |
| Share based payment expense | **231,277** | 279,463 |
| Balance 30 June | **2,048,490** | 1,817,213 |

The share based payment reserve is used to recognise the fair value of shares issued.

| | 2019 $ | 2018 $ |
|---|---|---|
| **(b) Hedge Reserve** | **82,440** | (84,420) |

Recognised in accordance with AASB9 - refer note 1

| | 2019 $ | 2018 $ |
|---|---|---|
| **(c) Accumulated losses** | | |
| Movements in accumulated losses were as follows: | | |
| Balance 1 July | **(6,451,537)** | (8,515,249) |
| Net profit for the year | **2,649,386** | 2,063,712 |
| Balance 30 June | **(3,802,151)** | (6,451,537) |

## Note 15 : Cash Flow Information

| **a) Reconciliation of profit after income tax to net cash outflow from operating activities** | **2019 $** | 2018 $ |
|---|---|---|
| Profit for the year | **2,649,386** | 2,063,712 |
| Depreciation, amortisation | **1,432,985** | 1,238,204 |
| Employee share issue expense | **231,277** | 279,463 |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in trade debtors | **(5,975,633)** | 595,443 |
| (Increase) decrease in other debtors | **(727,917)** | (1,283,166) |
| (Increase) decrease in inventories | **(157,763)** | (1,072,330) |
| Increase (decrease) in trade creditors | **541,643** | 1,608,538 |
| (Increase) decrease in deferred tax asset | **786,489** | 1,087,854 |
| Increase (decrease) in current tax liability | **515,231** | - |
| Increase (decrease) in other operating liabilities | **1,066,420** | 434,228 |
| Increase (decrease) in other provisions | **3,271** | 49,729 |
| Net cash inflow from operating activities | **365,388** | 5,001,673 |

| **b) Non-Cash Financing and Investing Activities** | Note | **2019 $** | 2018 $ |
|---|---|---|---|
| Deferred Consideration - Matso's Acquisition | 3 | **1,200,000** | - |
| | | **1,200,000** | - |

## Note 16 : Earnings Per Share

| | **2019** | 2018 |
|---|---|---|
| Basic earnings per share ("EPS") (cents) | **0.26** | 0.24 |
| Diluted earnings per share (cents) | **0.25** | 0.23 |

| **(a) Basic earnings (loss) per share** | **$** | $ |
|---|---|---|
| Profit used in calculating basic EPS | **2,649,386** | 2,063,712 |
| Weighted average number of ordinary shares used in calculating basic EPS | **1,033,326,284** | 869,671,599 |

The profit used in the calculation of basic earnings per share equates to the net profit in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The weighted average number of ordinary shares used in calculating basic earnings per share does not include potential ordinary shares such as shares under option.

| | **2019 $** | 2018 $ |
|---|---|---|
| **(b) Diluted earnings (loss) per share** | | |
| Profit used in calculating diluted EPS | **2,649,386** | 2,063,712 |
| Weighted average number of ordinary shares used in calculating diluted EPS | **1,048,326,284** | 884,671,599 |

The profit used in the calculation of basic earnings per share equates to the net profit in the Statement of Profit or Loss and Other Comprehensive Income.

The weighted average number of ordinary shares used in calculating diluted earnings per share does include potential ordinary shares such as shares under option.

## Note 17 : Share-based payments

### (a) Executive and Employee Share Plan

Shares issued pursuant to this Plan (Incentive Shares) are for services rendered by eligible employees and Directors to date and going forward, for services rendered by existing and any new eligible employees and Directors who are appointed in the future. The Company feels that incentive shares are effective consideration to eligible employees and Directors for their ongoing commitment and contribution to the Company. Where the Company offers to issue Incentive Shares to a Director, the Company may offer to provide the Director a limited recourse, interest free loan to be used for the purposes of subscribing for the Incentive Shares in the Company (refer Note 1: Significant Estimates and Judgements).

| | Date shares granted | Loan Expiry date | Issue price | Balance at start of the year | Granted during the year | Forfeited during the year | Balance at end of the year | Vested at the end of the year |
|---|---|---|---|---|---|---|---|---|
| Executives and Senior Management | 2-Oct-15 | 2-Oct-22 | 0.063 | 12,000,000 | - | - | 12,000,000 | 12,000,000 |
| Employees | 2-Oct-15 | 2-Oct-22 | 0.063 | 19,000,000 | - | (2,600,000) | 16,400,000 | 16,400,000 |
| Executives and Senior Management | 30-Sep-16 | 29-Sep-23 | 0.050 | 110,337,510 | - | (6,129,860) | 104,207,650 | - |
| Employees | 30-Sep-16 | 29-Sep-23 | 0.050 | 17,832,305 | - | (2,053,065) | 15,779,240 | - |
| Senior Management | 30-Aug-17 | 29-Sep-23 | 0.050 | - | 2,451,940 | - | 2,451,940 | - |
| Employees | 30-Aug-17 | 29-Sep-23 | 0.050 | - | 2,053,065 | (1,225,970) | 827,095 | - |
| Executives | 23-Apr-18 | 23-Apr-25 | 0.072 | - | 6,129,860 | - | 6,129,860 | - |
| Employees | 23-Apr-18 | 23-Apr-25 | 0.072 | - | 293,295 | - | 293,295 | - |
| Employees | 1-Mar-19 | 1-Mar-26 | 0.105 | - | 19,500,000 | - | 19,500,000 | - |
| Employees | 18-Jun-19 | 18-Jun-26 | 0.093 | - | 3,000,000 | - | 3,000,000 | - |
| Total | | | | 159,169,815 | 33,428,160 | (12,008,895) | 180,589,080 | 28,400,000 |

#### *(i) Employee and Executive Share Plan shares issued to employees 30 August 2017*

On 30 August 2017, 4,505,005 shares were issued to senior management and employees of the Company at an issue price of 5 cents per share and corresponding non-recourse loans totalling $225,250 were entered into in accordance with the Company's Employee and Executive Share Plan as part of their remuneration and having regard for their past and potential contribution to the Company.

Summary of key loan terms:

- Loan amount: $0.05 per share
- Interest rate: 0%
- Term of loan: 6 years and 1 month (expiring 29 September 2023)
- Tenure condition for 60%: remains eligible employee for 36 months after date of issue
- Tenure condition for further 20%: remains eligible employee for 48 months
- Tenure condition for the remaining 20% : remains eligible employee for 60 months
- The Earnings Condition will be satisfied for each year tranche if at least 95% of the current internal board approved expected earnings before interest tax depreciation and amortisation (EBITDA) for that year is achieved.
- Share Value Condition: Provided the Tenure Condition has been satisfied but the Earnings Condition has not been satisfied with regards to a particular tranche, if at any time after that year and during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or
- Take Over Provision: Where a takeover bid for the Company’s issued shares is declared unconditional and the bidder has acquired a relevant interest in at least 50.1% of the Company’s issued shares, all restriction conditions applying to any Shares will be immediately waived, or
- Compromise or Arrangement: Where a court approves under Section 411(4)(b) of the Corporations Act a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other Company, all restriction conditions applying to any Shares will be immediately waived, or

**Note 17 : Share-based payments (continued)**

- Death and Permanent Disability: Where an Eligible Employee dies or as a result of a total and permanent disability fails to meet any Tenure Condition with regards to a particular tranche, the loan will remain in place and at any time during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or
- Good Leaver Exceptions: The approved Executive & Employee Share Plan provides the Board discretion to waive restriction conditions in certain circumstances.
- Subject to the terms and conditions of the Employee and Executive Share Plan as approved by shareholders on 18 November 2014

The loans are non-recourse except against the Shares held by the participant to which the Loan relates.

The fair value at grant date of $58,381 was calculated using the Black Scholes pricing model that took into account the term, the underlying value of the shares, the exercise price, the expected dividend yield, the impact of dilution and the risk-free interest rate.

Model inputs used to value the loan-funded shares granted included:

- exercise price is $0.05
- market price of shares at grant date, $0.050
- expected volatility of the Company's shares is 30%,
- risk-free interest rate used is 1.50%
- time to maturity, 4 years; and
- a dividend yield of 0%

The value of the instruments has been expensed to remuneration on a proportionate basis for each financial year from grant date to vesting date. The proportion of the value of the instrument which was expensed to remuneration and accounted for in the share option reserve was $12,323 for the year ended 30 June 2019.

***(ii) Employee and Executive Share Plan shares issued to employees 23 April 2018***

On 23 April 2018, 6,423,155 shares were issued to executives and employees of the Company at an issue price of 7.2 cents per share and corresponding non-recourse loans totalling $462,467 were entered into in accordance with the Company's Employee and Executive Share Plan as part of their remuneration and having regard for their past and potential contribution to the Company.

Summary of key loan terms:

- Loan amount: $0.072 per share
- Interest rate: 0%
- Term of loan: 7 years (expiring 23 April 2025)
- Tenure condition for 60%: remains eligible employee for 36 months after date of issue
- Tenure condition for further 20%: remains eligible employee for 48 months
- Tenure condition for the remaining 20% : remains eligible employee for 60 months
- The Earnings Condition will be satisfied for each year tranche if at least 95% of the current internal board approved expected earnings before interest tax depreciation and amortisation (EBITDA) for that year is achieved.
- Share Value Condition: Provided the Tenure Condition has been satisfied but the Earnings Condition has not been satisfied with regards to a particular tranche, if at any time after that year and during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or
- Take Over Provision: Where a takeover bid for the Company’s issued shares is declared unconditional and the bidder has acquired a relevant interest in at least 50.1% of the Company’s issued shares, all restriction conditions applying to any Shares will be immediately waived, or

**Note 17 : Share-based payments (continued)**

- Compromise or Arrangement: Where a court approves under Section 411(4)(b) of the Corporations Act a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other Company, all restriction conditions applying to any Shares will be immediately waived, or
- Death and Permanent Disability: Where an Eligible Employee dies or as a result of a total and permanent disability fails to meet any Tenure Condition with regards to a particular tranche, the loan will remain in place and at any time during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or
- Good Leaver Exceptions: The approved Executive & Employee Share Plan provides the Board discretion to waive restriction conditions in certain circumstances.
- Subject to the terms and conditions of the Employee and Executive Share Plan as approved by shareholders on 23 November 2017

The loans are non-recourse except against the Shares held by the participant to which the Loan relates.

The fair value at grant date of $141,803 was calculated using the Black Scholes pricing model that took into account the term, the underlying value of the shares, the exercise price, the expected dividend yield, the impact of dilution and the risk-free interest rate.

Model inputs used to value the loan-funded shares granted included:

- exercise price is $0.072
- market price of shares at grant date, $0.072
- expected volatility of the Company's shares is 30%,
- risk-free interest rate used is 2.32%
- time to maturity, 5 years; and
- a dividend yield of 0%

The value of the instruments has been expensed to remuneration on a proportionate basis for each financial year from grant date to vesting date. The proportion of the value of the instrument which was expensed to remuneration and accounted for in the share option reserve was $41,123 for the year ended 30 June 2019.

***(iii) Employee and Executive Share Plan shares issued to employees 1 March 2019***

On 1 March 2019, 19,500,000 shares were issued to executives and employees of the Company at an issue price of 10.5 cents per share and corresponding non-recourse loans totalling $2,047,500 were entered into in accordance with the Company's Employee and Executive Share Plan as part of their remuneration and having regard for their past and potential contribution to the Company.

Summary of key loan terms:

- Loan amount: $0.105 per share
- Interest rate: 0%
- Term of loan: 7 years (expiring 1 March 2026)
- Tenure condition for 60%: remains eligible employee for 36 months after date of issue
- Tenure condition for further 20%: remains eligible employee for 48 months
- Tenure condition for the remaining 20% : remains eligible employee for 60 months
- The Earnings Condition will be satisfied for each year tranche if at least 95% of the current internal board approved expected earnings before interest tax depreciation and amortisation (EBITDA) for that year is achieved.
- Share Value Condition: Provided the Tenure Condition has been satisfied but the Earnings Condition has not been satisfied with regards to a particular tranche, if at any time after that year and during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or

**Note 17 : Share-based payments (continued)**

- Take Over Provision: Where a takeover bid for the Company's issued shares is declared unconditional and the bidder has acquired a relevant interest in at least 50.1% of the Company's issued shares, all restriction conditions applying to any Shares will be immediately waived, or
- Compromise or Arrangement: Where a court approves under Section 411(4)(b) of the Corporations Act a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other Company, all restriction conditions applying to any Shares will be immediately waived, or
- Death and Permanent Disability: Where an Eligible Employee dies or as a result of a total and permanent disability fails to meet any Tenure Condition with regards to a particular tranche, the loan will remain in place and at any time during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or
- Good Leaver Exceptions: The approved Executive & Employee Share Plan provides the Board discretion to waive restriction conditions in certain circumstances.
- Subject to the terms and conditions of the Employee and Executive Share Plan as approved by shareholders on 23 November 2017

The loans are non-recourse except against the Shares held by the participant to which the Loan relates.

The fair value at grant date of $540,221 was calculated using the Black Scholes pricing model that took into account the term, the underlying value of the shares, the exercise price, the expected dividend yield, the impact of dilution and the risk-free interest rate.

Model inputs used to value the loan-funded shares granted included:

- exercise price is $0.105
- market price of shares at grant date, $0.105
- expected volatility of the Company's shares is 30%,
- risk-free interest rate used is 1.03%
- time to maturity 5 years; and
- a dividend yield of 0%

The value of the instruments has been expensed to remuneration on a proportionate basis for each financial year from grant date to vesting date. The proportion of the value of the instrument which was expensed to remuneration and accounted for in the share option reserve was $51,935 for the year ended 30 June 2019.

***(iv) Employee and Executive Share Plan shares issued to employees 18 June 2019***

On 18 June 2019, 3,000,000 shares were issued to employees of the Company at an issue price of 9.3 cents per share and corresponding non-recourse loans totalling $279,000 were entered into in accordance with the Company's Employee and Executive Share Plan as part of their remuneration and having regard for their past and potential contribution to the Company.

Summary of key loan terms:

- Loan amount: $0.093 per share
- Interest rate: 0%
- Term of loan: 7 years (expiring 18 June 2026)
- Tenure condition for 60%: remains eligible employee for 36 months after date of issue
- Tenure condition for further 20%: remains eligible employee for 48 months
- Tenure condition for the remaining 20% : remains eligible employee for 60 months
- The Earnings Condition will be satisfied for each year tranche if at least 95% of the current internal board approved expected earnings before interest tax depreciation and amortisation (EBITDA) for that year is achieved.

**Note 17 : Share-based payments (continued)**

- Share Value Condition: Provided the Tenure Condition has been satisfied but the Earnings Condition has not been satisfied with regards to a particular tranche, if at any time after that year and during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or
- Take Over Provision: Where a takeover bid for the Company's issued shares is declared unconditional and the bidder has acquired a relevant interest in at least 50.1% of the Company's issued shares, all restriction conditions applying to any Shares will be immediately waived, or
- Compromise or Arrangement: Where a court approves under Section 411(4)(b) of the Corporations Act a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other Company, all restriction conditions applying to any Shares will be immediately waived, or
- Death and Permanent Disability: Where an Eligible Employee dies or as a result of a total and permanent disability fails to meet any Tenure Condition with regards to a particular tranche, the loan will remain in place and at any time during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or
- Good Leaver Exceptions: The approved Executive & Employee Share Plan provides the Board discretion to waive restriction conditions in certain circumstances.
- Subject to the terms and conditions of the Employee and Executive Share Plan as approved by shareholders on 23 November 2017

The loans are non-recourse except against the Shares held by the participant to which the Loan relates.

The fair value at grant date of $78,654 was calculated using the Black Scholes pricing model that took into account the term, the underlying value of the shares, the exercise price, the expected dividend yield, the impact of dilution and the risk-free interest rate.

Model inputs used to value the loan-funded shares granted included:

- exercise price is $0.093
- market price of shares at grant date, $0.093
- expected volatility of the Company's shares is 30%,
- risk-free interest rate used is 1.03%
- time to maturity 5 years; and
- a dividend yield of 0%

The value of the instruments has been expensed to remuneration on a proportionate basis for each financial year from grant date to vesting date. The proportion of the value of the instrument which was expensed to remuneration and accounted for in the share option reserve was $750 for the year ended 30 June 2019.

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| **(b) Expenses arising from Share-based payments** | | |
| Incentive Share Scheme | **231,278** | 279,463 |
| | **231,278** | 279,463 |

## Note 17 : Related party transactions

### (a) Key Management Personnel

Key Management Personnel as defined by AASB 124 Related Party Transactions are listed as follows:

| | |
|---|---|
| (i) Executive Officers | |
| Aaron Heary | Chief Operating Officer and Chief Strategy Officer |
| Marcel Brandenburg | Chief Financial Officer and Company Secretary |
| (ii) Executive Directors | |
| John Hoedemaker | Managing Director |
| (iii) Non-Executive Directors | |
| Ian Olson | Chairman |
| Robert Gould | |
| Graeme Wood | |

Directors have been in office from the start of the financial year to the date of this report unless otherwise stated.
No other employee had authority or responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly, during the financial year.

| *Key Management Personnel compensation* | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Short-term employment benefits | | |
| - Executives & Executive Directors | **893,994** | 898,303 |
| - Non-Executive Directors | **269,674** | 269,007 |
| Post-employment benefits | **97,314** | 97,232 |
| Share-based payments | **93,217** | 100,978 |
| | **1,354,199** | 1,365,520 |

## Note 18 : Related party transactions

### (b) Loans to key management personnel

Details of loans made to directors of the Company and other Key Management Personnel, including their personally related parties are set out below.
Key Management Personnel with loans during the financial year:

| 30-Jun-19 | Balance at the start of the year | Loans provided during the year | Loans paid back by the Employee | Interest paid and payable for the year | Interest not charged | Balance at the end of the year |
|---|---|---|---|---|---|---|
| ***Directors*** | | | | | | |
| Ian Olson | 612,986 | - | - | - | - | 612,986 |
| Robert Gould | 612,986 | - | - | - | - | 612,986 |
| John Hoedemaker | 1,904,466 | - | - | - | - | 1,904,466 |
| Graeme Wood | - | - | - | - | - | - |
| ***Executive Key Management*** | | | | | | |
| Aaron Heary | 1,726,872 | - | - | - | - | 1,726,872 |
| Marcel Brandenburg | 577,093 | - | (18,600) | - | - | 558,493 |
| **Total** | **5,434,403** | **-** | **(18,600)** | **-** | **-** | **5,415,803** |

All loans to key management personnel are under the terms and conditions as set out in remuneration report relating to the incentive share plan.

## Note 19 : Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| **Audit Services** | | |
| Audit and review of financial report | | |
| BDO Audit (WA) Pty Ltd | **70,946** | 56,363 |
| **Non-audit services** | | |
| BDO Corporate Finance (WA) Pty Ltd | **-** | 8,160 |
| BDO Corporate Tax (WA) Pty Ltd | **5,000** | - |
| | **75,946** | 64,523 |

## Note 20 : Commitments

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| **(a) Lease commitments - Company as lessee** | | |
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | **1,095,675** | 649,290 |
| Later than one year but not later than five years | **3,706,608** | 1,359,671 |
| Later than five years | **-** | - |
| | **4,802,283** | 2,008,961 |
| Representing: | | |
| Operating leases as per (i) below | **4,802,283** | 2,008,961 |
| below | **4,802,283** | 2,008,961 |

*(i) Operating leases*

The Company leases its Absolon Street premises under an operating lease expiring 31 August 2024 with on-going options to extend the lease by 5 years until 2034.

The Group furthermore leases a new warehousing premises under an operating lease which expires 30 June 2022. The lease has further options to extend by 3 years thereafter until 30 June 2031. The Group have also entered a five year operating lease for its first Microbrewery Taproom site in Redfern NSW. The lease expires on 6 November 2024 with further options to extend out to 2034.

**(b) Capital Commitments**

The Group also has Capital commitments over the next five years pertaining primarily to its assets under construction, referred to within note 10.

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Within one year | **1,610,343** | - |
| Later than one year but not later than five years | **3,151,965** | - |
| Later than five years | **-** | - |
| | **4,762,308** | - |

## Note 21 : Events occurring after the reporting date

No matter or circumstance has arisen since 30 June 2019, which has significantly affected, or may significantly affect, the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years.

## Note 22 : Segment reporting

The consolidated entity is monitored and managed as one overall operating segment. The processes from brewing production to retailing are consistent for all products and as they exhibit similar economic characteristics, they meet the AASB 8 criteria for aggregation.

The Gage Roads Board and management monitors the group as one overall brewing segment based on overall net profit level and production volumes. This Group's internal reporting framework is considered the most relevant to assist the chief operating decision maker in assessing the allocation of group resources and overall operating activities. There are no discrete corporate activities to the segments that would require reconciliation between segment expenses and total expenses.

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Revenue from external sources | **39,702,824** | 33,223,525 |
| Net profit/ (loss) before tax | **3,951,105** | 3,151,566 |
| Reportable segment assets | **63,383,992** | 47,590,257 |
| Reportable segment liabilities | **12,343,363** | 9,266,069 |

Woolworths Limited, Liquid Mix (WA) Pty Ltd. and Australian Liquor Marketers Pty Ltd. are major customers of the group as defined by AASB 8, as revenue from each customer exceeds 10% of total revenue from external sources.

## Note 23 : Contingencies and Guarantees

### (a) Contingent assets or liabilities

At the point at which it becomes probable that the Group will achieve the pre-determined sales volumes of Matso's products for each milestone period, a liability will be recognised. Please refer to note 3 for additional information.
The Group had no other contingent assets or liabilities as at 30 June 2019 or 2018.

### (b) Guarantees

The Group has the following bank guarantees as at 30 June 2019 in respect to its leased commercial properties:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Brewery - 14 Absolon Street, Palmyra 6057 | **193,430** | 193,000 |
| Warehousing facility | **148,000** | - |
| Redfern Brewery Taproom Property | **100,000** | - |
| | **441,430** | 193,000 |

## Note 24 : Parent Entity Financial Information

The financial information for Gage Roads Brewing Co. Limited has been extracted from the books and records of the parent and has been prepared on the same basis as the consolidated financial statements except as described below:

**Investments in subsidiares**
Investments in sibsidiaries are accounted for at cost in the financial statements of the parent entity.

**Tax consolidation legislation**
Gage Roads Brewing Co. Ltd and its wholly owned Australian subsidiary, Matsos Broome Brewing Pty Ltd, have formed an income tax consolidated Group.

For additional information, please refer to the Income Tax Expense details set out in note 6.

**Guarantees entered into by the parent entity**
Gage Roads Brewing Co. Limited has provided bank guarantees of $441,430 (2018: $193,000). Please refer to note 23 for additional information on Group guarantees.

**Contingent liabilities of the parent entity**
Gage Roads Brewing Co. Limited did not have any contingent liabilities as at 30 June 2019. Please refer to note 23 (a) for details of Group contingencies.
The individual statements for the parent entity show the following aggregate amounts:

| **Statement of Financial Position** | **2019 $** | 2018 $ |
|---|---|---|
| Current assets | **23,267,451** | 23,943,965 |
| Non-current assets | **40,116,541** | 23,646,292 |
| **Total assets** | **63,383,992** | 47,590,257 |
| Current Liabilities | **12,343,363** | 9,182,313 |
| Non-current liabilities | **-** | 83,756 |
| **Total liabilities** | **12,343,363** | 9,266,069 |
| **Net assets** | **51,040,629** | 38,324,188 |
| Contributed equity | **52,711,850** | 43,042,933 |
| Hedge reserve | **82,440** | (84,420) |
| Share options reserve | **2,048,490** | 1,817,212 |
| Accumulated profit/losses | **(3,802,151)** | (6,451,538) |
| **Total Shareholders Equity** | **51,040,629** | 38,324,188 |
| **Profit for the year** | **2,649,386** | 2,063,712 |
| **Total comprehensive income for the year** | **2,816,246** | 2,320,670 |

## Note 25 : Interest in subsidiaries

### (a) Parent and ultimate controlling entity
The parent and ultimate controlling entity is Gage Roads Brewing Co. limited, incorporated in Australia.

### (b) Controlled entities
The investments in subsidiaries are accounted for at cost in the financial statements of the parent entity.

| **Subsidiary** | **Country of Incorporation** | **Holding % 2019** | Holding % 2018 |
|---|---|---|---|
| Matso's Broome Brewing Pty Ltd | Australia | 100 | - |
| Regent Street Hospitality Pty Ltd | Australia | 100 | - |

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Australia

**INDEPENDENT AUDITOR'S REPORT**

To the members of Gage Roads Brewing Co. Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Gage Roads Brewing Co. Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, 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:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and

(ii) 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 *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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 judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Accounting for the Acquisition of Matso's Broome Brewing Pty Ltd

| ***Key audit matter*** | ***How the matter was addressed in our audit*** |
|---|---|
| As disclosed in Note 3 of the financial report, the group completed the acquisition of 100% of the issued share capital of Matso's Broome Brewing Pty Ltd during the year.<br><br>The Group accounted for the transaction as an asset acquisition, after consideration and assessment of AASB 3 *Business Combinations* ("AASB 3").<br><br>The accounting for this acquisition is a key audit matter due to the significant value of the acquisition and the significant judgements and assumptions made by management, including:<br><br>• Determination of the purchase consideration for the acquisition that includes consideration that is contingent upon achieving future performance milestones;<br><br>• Assessment of the fair value of assets acquired and liabilities assumed; and<br><br>• Determination that the acquisition did not meet the definition of a business combination in accordance with AASB 3 and therefore constituted an asset acquisition. | Our procedures included, but were not limited to:<br><br>• Reviewing the key executed transaction documents to understand the key terms and conditions of the acquisition;<br><br>• Evaluating management's determination of the accounting acquirer and whether the transaction constituted a business or an asset acquisition;<br><br>• Assessing the estimation of the contingent consideration by challenging management's key assumptions including the probability of achieving future performance milestones;<br><br>• Challenging the methodology and assumptions utilised to identify and determine the fair value of the assets acquired and liabilities assumed; and<br><br>• Assessing the adequacy of the related disclosures in Note 1 and Note 3 of the financial report. |

## Recoverability of identified Cash Generating Unit

| ***Key audit matter*** | ***How the matter was addressed in our audit*** |
|---|---|
| Note 11 to the financial report discloses the individual intangible assets and the assumptions used by the Group in testing these assets for impairment.<br><br>As required by Australian Accounting Standards, the Group performs an annual impairment test for each cash generating unit ("CGU") to which indefinite life intangible assets have been allocated to determine whether the recoverable amount is below the carrying amount at reporting date.<br><br>This was determined to be a key audit matter as management's assessment of the recoverability of intangible assets is supported by a value in use cash flow forecast which requires estimates and | Our procedures included, but were not limited to the following:<br><br>• Assessing the appropriateness of the Group's identification of CGU and management's allocation of assets to the carrying value of the CGU based on our understanding of the Group's business;<br><br>• Evaluating management's ability to accurately forecast cash flows by assessing the accuracy of historic forecasts against actual results;<br><br>• Challenging key inputs used in management's impairment assessment including the following:<br><br>  ○ In conjunction with our valuation |

| | |
|---|---|
| judgements about future performance.<br><br>These include estimates and judgements about CGU allocation, expectation of future revenues, growth rates expected and the discount rate applied as disclosed in Note 1 and Note 11 to the financial report | specialist, comparing the discount rate utilised by management to our internally calculated discount rate;<br>○ Comparing the future growth rate with economic and industry forecasts;<br>○ Comparing the Group's cash flow forecasts to the board approved budgets; and<br>○ Performing sensitivity analysis to stress test the key assumptions used, including the future growth rates and discount rate.<br>• Assessing management's rationale to determine the useful life of identifiable intangible assets; and<br>• Assessing the adequacy of the related disclosures in Note 1 and Note 11 of the financial report. |

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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 ability of the group to continue as a going concern, disclosing, as applicable, matters related 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 has 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 16 to 19 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Gage Roads Brewing Co. Ltd, for the year ended 30 June 2019, 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.

**BDO Audit (WA) Pty Ltd**

BDO

JPrue

**Jarrad Prue**
**Director**

Perth, 30 August 2019

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in the annual report is as follows. This information is as at 29 August 2019.

**Substantial Shareholders (holding more than 5%)**

| | Fully Paid Ordinary Shares | |
|---|---|---|
| **Shareholder** | **Ordinary Shares** | **Percentage** |
| Citicorp Nominees Pty Limited | 158,586,445 | 14.34% |
| J P Morgan Nominees Australia Pty Limited | 110,530,514 | 9.99% |
| National Nominees Limited | 78,673,946 | 7.11% |

**Top 20 Shareholders**
**(a) Fully Paid Ordinary Shares**

| | Fully Paid Ordinary Shares | |
|---|---|---|
| **Shareholder** | **Ordinary Shares** | **Percentage** |
| Citicorp Nominees Pty Limited | 158,586,445 | 14.34% |
| J P Morgan Nominees Australia Pty Limited | 110,530,514 | 9.99% |
| National Nominees Limited | 78,673,946 | 7.11% |
| Mr Shimin Song | 51,881,412 | 4.69% |
| Smooth Seas Pty Ltd | 48,253,994 | 4.36% |
| Heytesbury Pty Ltd | 43,780,464 | 3.96% |
| Hsbc Custody Nominees (Australia) Limited | 42,717,522 | 3.86% |
| Nice Day For A Walk Pty Ltd | 30,687,833 | 2.77% |
| Bnp Paribas Noms Pty Ltd | 21,694,036 | 1.96% |
| Robert Gould | 12,298,248 | 1.11% |
| Jennifer Madeline Olson | 12,259,725 | 1.11% |
| Giromol Pty Ltd | 10,838,523 | 0.98% |
| Mr Marcus Jeen Creighton | 10,300,000 | 0.93% |
| Mr Matthew Lloyd Morisey | 10,129,860 | 0.92% |
| Mr Marcel Brandenburg | 10,129,860 | 0.92% |
| Marcacey Pty Ltd | 9,500,000 | 0.86% |
| Mintox Investments Pty Ltd | 8,800,000 | 0.80% |
| Mr Scott Grayston Player | 8,000,000 | 0.72% |
| Mr Donald John Pleasance | 7,463,194 | 0.67% |
| Mr Peter Howells | 7,038,523 | 0.64% |
| | 693,564,099 | 62.70% |

**(b) Unlisted Options over Fully Paid Ordinary Shares**

| | | |
|---|---|---|
| Argonaut Investments Pty Limited | 15,000,000 | 100.00% |

**Additional ASX Information (continued)**

**Distribution of Holders of Ordinary Fully Paid Shares**

| Range | Total Holders | Units | Percentage |
|---|---|---|---|
| 1-1,000 | 113 | 12,247 | 0.00% |
| 1,001-5,000 | 204 | 798,466 | 0.07% |
| 5,001-10,000 | 582 | 4,608,453 | 0.42% |
| 10,001-100,000 | 1,918 | 75,607,100 | 6.83% |
| 100,001 and above | 754 | 1,025,231,582 | 92.68% |
| **Total** | **3,571** | **1,106,257,848** | **100.00%** |

As at 29 August 2019 there were 344 Shareholders with less than marketable parcels.

**Voting rights**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote. Options have no voting rights.

**Shares and Options subject to escrow**

As at 29 August 2019 there are nil ordinary shares and options held in escrow.