

# Appendix 4E Preliminary Final Report

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

For the financial year ended 30 June 2011

### Results for announcement to the market

Revenue from continuing activities	up	171%	to	15,780,825
Profit from ordinary activities after tax attributable to members	down	82%	to	122,421
Net profit attributable to members	down	82%	to	122,421

### 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 2011	30 June 2010
\$	\$
0.02	0.02

### Statement of accumulated losses

	30 June 2011	30 June 2010
	\$	\$
Balance 1 July	(11,422,892)	(12,102,040)
Net profit (loss) for the year	122,421	679,148
Balance 30 June	<u>(11,300,471)</u>	<u>(11,422,892)</u>

### 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 2011. The previous corresponding period is the year ended 30 June 2010.

### Financial statements

The statement of 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 2011.

## Commentary on the results for the year ended 30 June 2011

### Highlights

- Revenue increases 171% to \$15.8 million.
- Total production volume increases by 186%.
- Cash flow from operations increases by \$5.6 million to \$3.5 million.
- The company achieved its maiden net profit of \$0.12 million from its brewery operations.
- ANZ credit facility increased to raise \$5.5 million to partly fund a 4 year \$9.6 million capacity and productivity expansion drive.
- Demand for contract brewing continues to grow strongly with longer term forecasts increasing from 1.5 million cases in FY12 to circa 3 million cases per annum in FY15.

It is with great pleasure that I have accepted the appointment as Managing Director on the eve of this Annual Report and I look forward to managing the completion of our four year capital expansion program and delivering growing profits and increased value to shareholders and employees as the Company takes advantage of its growing demand forecast.

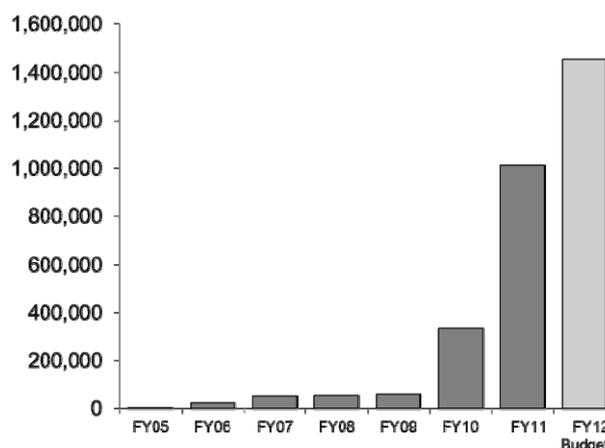
Gage Roads has become, for the first time, a profitable business as a result of its ordinary operations and is poised to take advantage of a rapidly growing order book. The near term future of the Company to FY15, includes the tripling of annual production capacity to 3 million cartons and a corresponding tripling of forecast sales with a significant reduction in operating costs on a per case basis delivering strongly growing profits. This growth outlook is thanks largely to a change in the Company's strategic direction from a high margin, low volume, loss making, niche brewer to a profitable, high volume, low cost contract brewer. This strategy has culminated in the growing relationship with Woolworths and the Company's current position as a supplier to the rapidly growing private label segment of the contract brew market.

I would like to thank Nick Hayler, the outgoing CEO, for his outstanding contribution to Gage Roads over the last 5 years. Nick led the executive team in developing the low cost contract brewing strategy. Nick was instrumental in securing Woolworths as a cornerstone investor and cornerstone customer and oversaw the Company's transformation from selling less than 50,000 cartons per annum to its current position as a profitable operation producing over 1,000,000 cartons per annum.

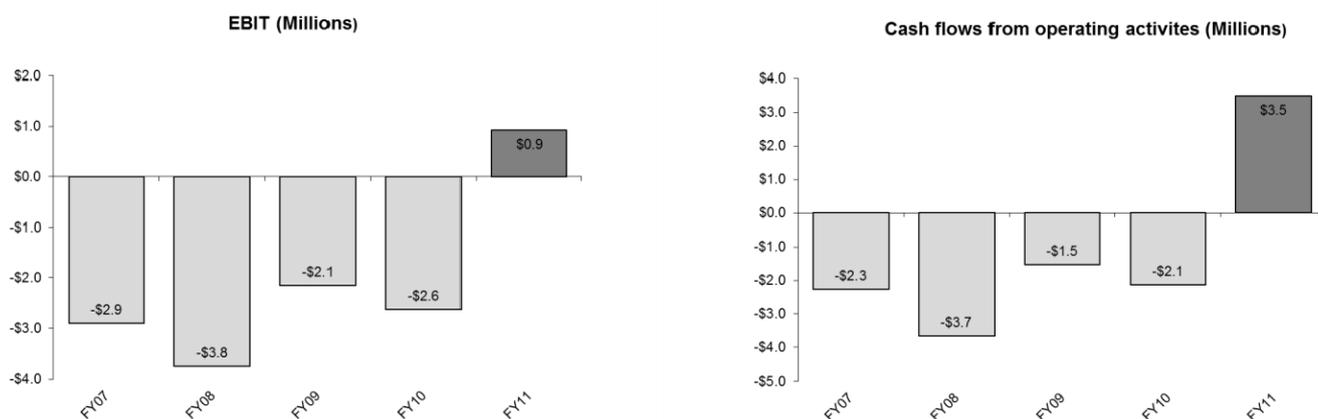
The revenue result for the year ended 30 June 2011 was \$15.8 million, an increase of 171% compared with FY 2010 of \$5.8 million. The growth in sales was driven by a 220% uplift of contract brewed products and a 20% uplift of Gage Roads proprietary products during the year.

Correspondingly earnings before interest and tax (EBIT) increased to \$0.9 million, creating the first full year operating profit compared with FY10's EBIT loss of \$2.6 million.

**Sales Volume (Cartons)**



Significantly, cash inflow from operating activities was \$3.5 million for the year compared with a net cash outflow from operating activities in FY10 of \$2.1 million, a very favourable turnaround of \$5.6 million for the year.



The Company has embarked on a \$9.6 million four year capital expansion program, designed to take the Company's production capacity from 1.2 million to 2.9 million cases of beer, cider and other beverages per annum by FY15. The capital expansion program is also tasked with improving the production efficiency and profitability of the Company's operations. Specific improvements expected to be realised over the 4 year timeframe include improved direct raw material utilisation, reductions in variable production costs and reductions in packaging and brewery labour costs per case.

Procurement of plant and equipment has begun for a first stage completion date of November 2011. This increased capacity will meet the anticipated 2011/2012 summer demand for both contract brewed products and Gage Roads' own brands. The strong growth in demand for Woolworths' contract brewed products has been a major contributing factor in the Board's decision to embark on this expansion program.

In June 2011 the Company re-negotiated its credit facility with the ANZ to provide an additional \$5.5 million to part fund the current 4 year capital expansion program. The balance of funds required (\$4.1 million) is to be met from operating cash flow. The facility limit was increased to \$9.7 million with an extension of the term to 1 July 2013. The facility is secured by Company assets and a guarantee from Woolworths Limited.

The year to 30 June 2011 was a milestone year for the Company and marks a turning point in the performance of the operations and the prospective outlook for both shareholders and employees. Achieving our maiden operating profit after tax is a great reward for, and a reflection of, the dedication and commitment made by the employees and shareholders of Gage Roads. I believe that the continued expansion of the brewery coupled with our low-cost operating focus will provide further opportunities for our business to drive further growth in production capacity, productivity and profitability and can deliver excellent results in coming years.

John Hoedemaker  
 Managing Director  
 Gage Roads Brewing Co Ltd

Further detailed commentary on the results for the year ended 30 June 2011 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.



Signed:

Company Secretary

Date: 24 August 2011

Name:

John Hoedemaker



---

**GAGE ROADS BREWING CO LIMITED  
ANNUAL REPORT  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**ABN 22 103 014 320**

---

**Gage Roads Brewing Co Ltd**  
**Annual Report**  
**For the Year Ended 30 June 2011**

---

## **Corporate Directory**

### **Directors**

Ian Olson (Chairman)  
Robert Gould  
Steven Greentree  
Bill Hoedemaker  
John Hoedemaker

### **Managing Director**

John Hoedemaker (*appointed 17 August 2011*)

### **Chief Executive Officer**

Nick Hayler (*resigned 17 August 2011*)

### **Company Secretary**

John Hoedemaker

### **Principal Place of Business & Registered Office**

14 Absolon Street  
PALMYRA WA 6157  
Tel: (08) 9331 2300  
Fax: (08) 9331 2400  
Web: [www.gageroads.com.au](http://www.gageroads.com.au)

### **Postal Address**

PO Box 2024  
PALMYRA WA 6961

### **Auditor**

BDO Audit (WA) Pty Ltd  
128 Hay Street  
SUBIACO WA 6008

### **Legal Adviser**

Steinepreis Paganin  
Lawyers and Consultants  
Level 4, Next Building  
16 Milligan Street  
PERTH WA 6000

### **Stock Exchange Listing**

ASX Limited  
Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

ASX Code: GRB

### **Share Registry**

Computershare Investor  
Services Pty Limited  
GPO Box D182  
PERTH WA 6840

### *Registry Enquiries*

Within Australia: 1300 798 285  
Outside Australia: (03) 9415 4823

**Gage Roads Brewing Co Ltd  
Financial Report  
For the Year Ended 30 June 2011**

---

**Contents**

Chairman's Letter.....	4
Review of Operations.....	5
Directors' Report.....	7
Corporate Governance Statement.....	17
Auditor's Independence Declaration.....	21
Directors' Declaration.....	22
Statement of Comprehensive Income .....	23
Statement of Financial Position .....	24
Statement of Changes in Equity .....	25
Statement of Cash Flows.....	26
Notes to the Financial Statements.....	27
Independent Auditor's Report .....	53
ASX Additional Information .....	55

**Gage Roads Brewing Co Ltd**  
**Chairman's Letter**  
**For the Year Ended 30 June 2011**

---

Dear Shareholder

In gathering my thoughts for this year's Annual Report, I have reflected on the enormous change that our company has experienced in recent times.

Last year I wrote that we were nearing completion of an expansion program that was set to deliver volumes of 1.2 million cartons per annum from the Palmyra facility and create a sustainably profitable business focused on low-cost contract brewing operations.

However the dramatically changing landscape of the domestic and global beverage market (influenced by changing consumer tastes and a strong A\$), coupled with Woolworths' success in growing its private label business meant that the team at Gage was barely finished with this expansion program when revised contract brewing demand forecasts from Woolworths caused your Board to consider additional capacity upgrades.

The Board welcomed the support of Woolworths and our bankers at ANZ to enable us to embark upon an additional expansion program beyond the current 1.2 million case capacity to one of just under 3 million cases per annum.

Recently we bid farewell to Nick Hayler who in his time as your Company's CEO oversaw a period of dramatic upheaval and change. After a job well done, Nick is moving on to new challenges and your Board was pleased to make an internal appointment as Nick's successor.

John Hoedemaker's appointment as Managing Director comes at a time when we are seeking to lower operating costs further and drive enhanced profitability from the Palmyra operation. Your Board believes that John's management style and commercial background is well suited to this challenge and aided by his management team, we can look forward with confidence in a time of uncertain economic conditions.

I would like to thank my fellow Board members for their support and guidance during the past 12 months. While we are a public company, we are a fast growing business requiring a responsive approach to the direction of business operations as well as our ASX and corporate reporting obligations.

We shall be asking shareholders at the forthcoming AGM to approve a long-term executive remuneration scheme for our key executives as your Board seeks to lock-in their commitment to delivering the next phase of growth and profitability for the benefit of all shareholders.

The current legislative, reporting and tax environment, both for the company and the individual, have made the design and implementation of this plan a long and considered process. Your Board also wished to seek shareholder approval for such a scheme at a time we were confident that the business was set on a path of sustained profitability.

I take this opportunity on behalf of the Board to register our appreciation for the effort and dedication of the employees of Gage Roads who have done the very hard work, day and night, in progressing the Company to where it is today.

We thank shareholders for your continued support and look forward to reporting on milestones in the current phase of our expansion program.



Ian Olson  
**Chairman**

**Gage Roads Brewing Co Ltd**  
**Review of Operations**  
**For the Year Ended 30 June 2011**

---

## Review of Operations

### Highlights

- Revenue increases 171% to \$15.8 million.
- Total production volume increases by 186%.
- Cash flow from operations increases by \$5.6 million to \$3.5 million.
- The company achieved its maiden net profit of \$0.12 million from its brewery operations.
- ANZ credit facility increased to raise \$5.5 million to partly fund a 4 year \$9.6 million capacity and productivity expansion drive.
- Demand for contract brewing continues to grow strongly with longer term forecasts increasing from 1.5 million cases in FY12 to circa 3 million cases per annum in FY15.

It is with great pleasure that I have accepted the appointment as Managing Director on the eve of this Annual Report and I look forward to managing the completion of our four year capital expansion program and delivering growing profits and increased value to shareholders and employees as the Company takes advantage of its growing demand forecast.

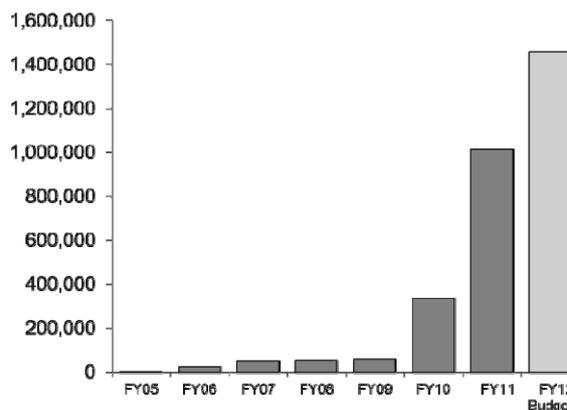
Gage Roads has become, for the first time, a profitable business as a result of its ordinary operations and is poised to take advantage of a rapidly growing order book. The near term future of the Company to FY15, includes the tripling of annual production capacity to 3 million cartons and a corresponding tripling of forecast sales with a significant reduction in operating costs on a per case basis delivering strongly growing profits. This growth outlook is thanks largely to a change in the Company's strategic direction from a high margin, low volume, loss making, niche brewer to a profitable, high volume, low cost contract brewer. This strategy has culminated in the growing relationship with Woolworths and the Company's current position as a supplier to the rapidly growing private label segment of the contract brew market.

I would like to thank Nick Hayler, the outgoing CEO, for his outstanding contribution to Gage Roads over the last 5 years. Nick led the executive team in developing the low cost contract brewing strategy. Nick was instrumental in securing Woolworths as a cornerstone investor and cornerstone customer and oversaw the Company's transformation from selling less than 50,000 cartons per annum to its current position as a profitable operation producing over 1,000,000 cartons per annum.

The revenue result for the year ended 30 June 2011 was \$15.8 million, an increase of 171% compared with FY 2010 of \$5.8 million. The growth in sales was driven by a 220% uplift of contract brewed products and a 20% uplift of Gage Roads proprietary products during the year.

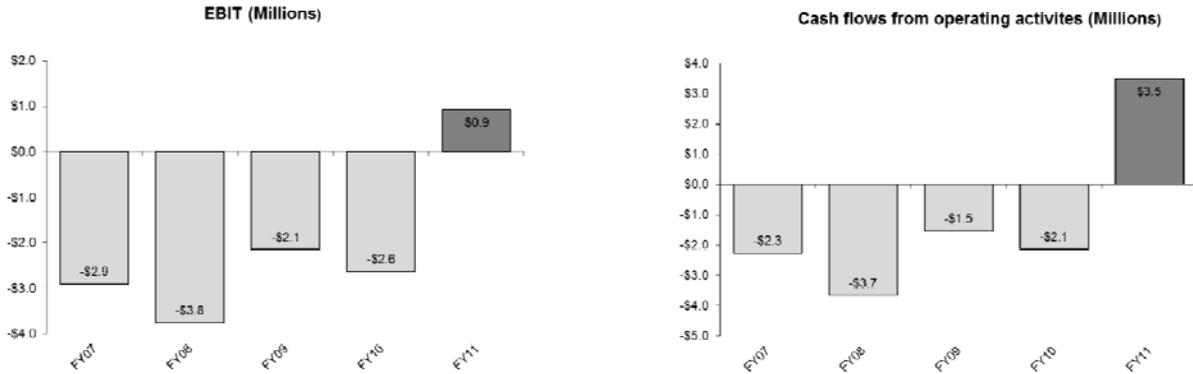
Correspondingly earnings before interest and tax (EBIT) increased to \$0.9 million, creating the first full year operating profit compared with FY10's EBIT loss of \$2.6 million.

**Sales Volume (Cartons)**



**Gage Roads Brewing Co Ltd**  
**Review of Operations**  
**For the Year Ended 30 June 2011**

Significantly, cash inflow from operating activities was \$3.5 million for the year compared with a net cash outflow from operating activities in FY10 of \$2.1 million, a very favourable turnaround of \$5.6 million for the year.



The Company has embarked on a \$9.6 million four year capital expansion program, designed to take the Company's production capacity from 1.2 million to 2.9 million cases of beer, cider and other beverages per annum by FY15. The capital expansion program is also tasked with improving the production efficiency and profitability of the Company's operations. Specific improvements expected to be realised over the 4 year timeframe include improved direct raw material utilisation, reductions in variable production costs and reductions in packaging and brewery labour costs per case.

Procurement of plant and equipment has begun for a first stage completion date of November 2011. This increased capacity will meet the anticipated 2011/2012 summer demand for both contract brewed products and Gage Roads' own brands. The strong growth in demand for Woolworths' contract brewed products has been a major contributing factor in the Board's decision to embark on this expansion program.

In June 2011 the Company re-negotiated its credit facility with the ANZ to provide an additional \$5.5 million to part fund the current 4 year capital expansion program. The balance of funds required (\$4.1 million) is to be met from operating cash flow. The facility limit was increased to \$9.7 million with an extension of the term to 1 July 2013. The facility is secured by Company assets and a guarantee from Woolworths Limited.

The year to 30 June 2011 was a milestone year for the Company and marks a turning point in the performance of the operations and the prospective outlook for both shareholders and employees. Achieving our maiden operating profit after tax is a great reward for, and a reflection of, the dedication and commitment made by the employees and shareholders of Gage Roads. I believe that the continued expansion of the brewery coupled with our low-cost operating focus will provide further opportunities for our business to drive further growth in production capacity, productivity and profitability and can deliver excellent results in coming years.

**John Hoedemaker**  
**Managing Director**

**Gage Roads Brewing Co Ltd  
Directors' Report  
For the Year Ended 30 June 2011**

---

## **Directors' Report**

Your Directors present their report on Gage Roads Brewing Co Limited for the year ended 30 June 2011.

### **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.

Ian Olson	(Chairman)
Robert Gould	
Steven Greentree	
Bill Hoedemaker	
John Hoedemaker	(Appointed Managing Director 17 August 2011)

### **Chief Executive Officer**

Nick Hayler (Resigned 17 August 2011)

### **Principal activities**

During the year the principal continuing activities of the Company were the brewing, packaging, marketing and selling of craft brewed 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 \$122,421 (2010: \$679,148)

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 Growth** – In November 2009 the Company embarked on a capital expansion program of the Palmyra (WA) brewing facility to increase the production capacity of the brewery from 350,000 to 1.2 million cartons per annum. This expansion program was completed early in Financial Year 2011 and the increased capacity was quickly utilised to generate increased production and sales volumes to satisfying the growing demand for both contract brewed products and Gage Roads' own brands. During the year the Company produced and sold just over 1 million cartons of beer, cider and other beverages, a growth of 214% over the previous year. Sales revenue of just over \$15.7 million was generated, an increase of 172% over the previous year.
- (b) **Maiden Operating Profit** – During October 2010 the Company achieved a significant milestone by reaching its breakeven point and the Company commenced generating consistent operating profits for the first time as a result of the ordinary production and sale of beer and cider and other beverages. Profits were generated in the ensuing second, third and fourth quarters of FY11 contributing to the full year profit of \$122,421, confirming that the Company's contract volume growth and low cost of operations strategy is both profitable and sustainable.

**Gage Roads Brewing Co Ltd**  
**Directors' Report**  
**For the Year Ended 30 June 2011**

---

(c) **Capital Expansion Program** - In June 2011 the Company embarked on a \$9.6 million four year capital expansion program of the Palmyra (WA) brewing facility designed to take the Company's production capacity to 2.9 million cases of beer, cider and other beverages per annum by FY15, creating the capacity required to fulfil the projected demand from its contract brewing customers and the anticipated growth of the Company's proprietary brands. The Company has engaged the services of highly qualified brewing and packaging process engineers from around Australia to design and implement the expansion of the brewery and packaging line with a focus on delivering the efficiencies required while maintaining the highest standard of production possible.

A key benefit of the capital expansion program is the expected improvement in the overall manufacturing efficiency and profitability of the Company's brewing and packaging operations. Specific improvements expected to be realised over the 4 year timeframe include improved direct raw material utilisation, reductions in variable production costs and reductions in packaging and brewery labour costs per case.

Procurement of plant and equipment for the expansion project has begun to ensure a first stage completion date of November 2011 is met. This increased capacity will meet the anticipated 2011/2012 summer demand for both contract brewed products and Gage Roads' own brands. The strong growth in demand for Woolworths' contract brewed products has been a major contributing factor in the Board's decision to embark on this expansion program.

The budgeted \$9.6 million cost of the 4 year capital expansion program is partly funded by increased borrowings of \$5.5 million described below, with the balance of funds required (\$4.1 million) expected to be met from ongoing operating surpluses.

(d) **ANZ Facility Increase From \$4.2 million to \$9.7 million** – During FY10 the Company executed an agreement with the ANZ Banking Group Limited to provide a \$4.2 million credit facility in order to fund the FY10 expansion program. In June 2011 the Company re-negotiated this facility to include an increase of the limit to \$9.7 million, providing an additional \$5.5 million to partly fund the current 4 year capital expansion program, and an extension of the term to 1 July 2013. As of the 30 June 2011 the available \$5.5 million in funds remains un-drawn, and is expected to be drawn down during the first 3 quarters of FY12 as the expansion program progresses. The facility is secured by Company assets and a guarantee from Woolworths Limited.

(e) **Shares Issued** – In February 2011 in accordance with the Company's Employee Share Plan, 1,124,986 shares were issued to eligible employees (not including Directors and Executive Officers) as part of their remuneration and having regard to their past and potential contribution to the Company. The shares were issued for nil cash consideration in accordance with a resolution of the Board.

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

On 17 August 2011 Nick Hayler resigned from his position as Chief Executive Officer to pursue his career in a new industry sector. In keeping with the Company's succession plan, The Board appointed John Hoedemaker as Managing Director on the same date.

No other matter or circumstance has arisen since 30 June 2011, 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.

#### **Likely developments and expected results of operations**

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

**Gage Roads Brewing Co Ltd**  
**Directors' Report**  
**For the Year Ended 30 June 2011**

---

**Information on Directors**

**Ian Olson** CA, BCom, MAICD, AIMM  
(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 the proprietor and Executive Chairman of the King Group, a diversified surveying, drafting, mapping and GIS business. Prior to the acquisition of the King Group Ian was Managing Partner of PKF Chartered Accountants in Western Australia.

*Other current public directorships* - Diploma Constructions Limited and RuralAus Investments Limited.

*Former directorships in listed companies in last 3 years* – None.

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

*Interests (direct and indirect) in shares and options* - 2,470,587 shares and nil options in the Company.

**Robert Gould** FCA, 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 management of a venture capital fund with \$113 million under management. Robert was a seed capital investor in Gage Roads and is currently a Director and Shareholder of Javelin Partners Pty Ltd, a private equity advisory business.

*Other current public directorships* - None.

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

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

*Interests (direct and indirect) in shares and options* – 1,000,000 shares and nil options in the Company.

**Steven Greentree** AAICD  
(Non-Executive, appointed 30 June 2008)

*Experience and expertise* - Steven Greentree is the General Manager of Woolworths' liquor group. Steven was appointed to his current role in the Liquor Group in December 2007 and has responsibility for all Woolworths retail liquor brands (BWS, Dan Murphy's, Woolworths Liquor), Cellarmasters, Dorrien Winemaking and Vinpac bottling. Steven's extensive career with Woolworths has included prior roles such as General Manager of Woolworths Private Label and Quality Assurance for Australia and New Zealand, General Manager of Marketing for Australian Supermarkets, Operations Manager and Regional Manager for South Australia and the Northern Territory. Steven is a Director of Australian Leisure and Hospitality Group (ALH) Pty Ltd and a member of the Woolworths Management Board.

*Other current public directorships* - None.

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

*Special responsibilities* - None.

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

**Gage Roads Brewing Co Ltd**  
**Directors' Report**  
**For the Year Ended 30 June 2011**

---

**Bill Hoedemaker** BCom

*(Executive Director of Operations and Brewmaster, appointed 3 December 2002)*

*Experience and expertise* - Bill is a founding Shareholder and Director of Gage Roads. He has been a professional Brewer for 12 years, of which 4 were as a member of the multi-award winning brewing team at the Sail & Anchor Pub Brewery and the last 8 years as Brewmaster for Gage Roads. Bill is responsible for capital infrastructure including the FY10 capacity upgrade to 1.2 million cartons per annum and the current \$9.6 million 4 year expansion designed to increase the Company's capacity to 2.9 million cases by FY15. Bill also oversees the brewing operations of the Company, including recipe formulation, quality control, product consistency and cost control. Bill has substantial experience in the resources industry and brings strengths in process efficiencies and problem solving as well as an in-depth knowledge of practical brewing.

*Other current public directorships* - None.

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

*Special responsibilities* - Director of Operations and Brewmaster.

*Interest (direct and indirect) in shares and options* - 404,669 shares and nil options in the Company. Bill is also a beneficiary of two discretionary trusts, The Leijenaar Trust and The Ottor Trust. Pieter Hoedemaker as trustee for The Leijenaar Trust and The Ottor Trust holds 10,218,730 shares and nil options in the Company.

**John Hoedemaker** BCom

*(Managing Director, appointed 17 August 2011, Executive Chief Financial Officer and Company Secretary, appointed 3 December 2002)*

*Experience and expertise* - John is a founding Shareholder and Director of Gage Roads. 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 and the financial accounting, governance and administration aspects of the business. 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 in last 3 years* - None.

*Special responsibilities* - Chief Financial Officer and Company Secretary.

*Interest (direct and indirect) in shares and options* - 404,669 shares and nil options in the Company. John is also a beneficiary of two discretionary trusts, The Leijenaar Trust and The Ottor Trust. Pieter Hoedemaker as trustee for The Leijenaar Trust and The Ottor Trust holds 10,218,730 shares and nil options in the Company.

**Information on Management**

**Nick Hayler** BBus

*(Chief Executive Officer, appointed 30 October 2007, resigned 17 August 2011)*

*Experience and expertise* - Nick Hayler holds a Bachelor of Business with a Marketing Major. Prior to his role as CEO he was the Sales and Marketing Manager for Gage Roads. Before joining Gage Roads Nick worked for Coca Cola Amatil for 12 years at both State and National levels in strategic sales positions, including the management of their highly profitable Hotel, Café and Restaurant Channel. Nick's extensive experience in strategic planning and management and his open communication style provide him with the unique skill sets that were required to lead Gage Roads both internally and in a public company environment.

**Gage Roads Brewing Co Ltd**  
**Directors' Report**  
**For the Year Ended 30 June 2011**

**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 2011, and the number of meetings attended by each Director, were as follows:

Directors	Full Meeting of Directors		Meetings of Audit Committee		Meetings of Remuneration Committee	
	A	B	A	B	A	B
Ian Olson (Non-Executive)	9	9	2	2	1	1
Robert Gould (Non-Executive)	9	9	2	2	1	1
Steven Greentree (Non-Executive)	9	9	n/a	n/a	n/a	n/a
Bill Hoedemaker (Executive)	9	9	n/a	n/a	n/a	n/a
John Hoedemaker (Executive)	9	9	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 (2010: 3,000,000).

**Shares issued on the exercise of options**

There were no shares issued on the exercise of options during the year ended 30 June 2011 (2010: Nil).

**Options granted to Directors**

No options over unissued ordinary shares were granted to Directors during the year ended 30 June 2011 (2010: 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 2011 (2010: Nil).

**Options cancelled, forfeited or lapsed**

During the year 3,000,000 options over unissued ordinary shares that were granted to non-director employees were voluntarily forfeited and cancelled (2010: Nil). Details of the options forfeited and cancelled can be found at Note 20 to the Financial Statements

**Shares issued to employees**

Eligible employees of the Company (other than Directors and Executive Officers) received shares in recognition of their extraordinary contribution to date. The shares were issued on 18<sup>th</sup> February 2011 for nil consideration at the discretion of the Board in accordance with the Company's Employee Share Scheme.

Ordinary shares that have been issued to employees of the Company at the date of this report are as follows:

Date shares issued	Number of shares issued
26-Jul-07	70,000
22-Jan-09	4,275,000
27-Jan-10	1,275,000
18-Feb-11	1,124,986
	6,744,986

**Gage Roads Brewing Co Ltd**  
**Directors' Report**  
**For the Year Ended 30 June 2011**

---

The value of the 1,124,986 shares at the date of issue was \$87,749. Details of the shares issued to employees can be found at Note 20 to the Financial Statements.

## **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 Directors' and Executives' 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.

*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 \$150,000. Directors are entitled to have premiums paid for Directors' & Officers' insurance.

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

- (a) salary - the Key Management Executives and Executive Directors receive a fixed sum payable monthly in cash;
- (b) cash at risk component - Key Management Executives and Executive Directors are eligible to participate in a cash bonus plan if deemed appropriate;
- (c) share and option at risk component - Key Management Executives 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 Executives and Executive Directors are eligible to participate in superannuation schemes, 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. The remuneration policy is linked to the Company's performance through the granting of options or loan funded share scheme shares from time to time whose exercise price or inherent value is linked to an increasing share price and the cash at risk component (if any) which is linked to profitability. The market capitalisation of the Company has increased from \$17,828,138 (40¢) at date of listing on the Australian Stock Exchange (13 December 2006) to \$18,912,700 (6.2¢) as at 22 August 2011 and no dividends have been paid during that period.



**Gage Roads Brewing Co Ltd**  
**Directors' Report**  
**For the Year Ended 30 June 2011**

---

**Service agreements**

Remuneration and other terms of employment for the following Key Management Personnel are formalised in employment agreements. The fixed term agreements regarding Bill Hoedemaker and John Hoedemaker expired on the 23 December 2008, their continued employment is based on an implied extension of those contracts. New agreements for Key Management Personnel were formalised early in FY12. The significant terms of employment at the date of this report are set out below:

*Nick Hayler – CEO, resigned 17 August 2011*

- Term of agreement: No fixed term.
- Base salary: \$190,000 pa, reviewed annually by the Remuneration Committee.
- Termination notice period: 1 month notice.
- Bonus entitlement: Nil.

*Bill Hoedemaker - Director of Operations - Brewmaster*

- Term of agreement: No fixed term.
- Base salary: \$190,000 pa, reviewed annually by the Remuneration Committee.
- Termination notice period: 8 month notice (without cause)
- Termination notice period: 4 month notice (with cause)
- Bonus entitlement: Nil.

*John Hoedemaker – MD, CFO and Company Secretary*

- Term of agreement: No fixed term.
- Base salary: \$220,000 pa, reviewed annually by the Remuneration Committee.
- Termination notice period: 8 month notice (without cause).
- Termination notice period: 4 month notice (with cause)
- Bonus entitlement: Nil.

No Director or executive is entitled to any termination payments apart from 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.

**Share-based compensation**

*Options granted to Key Management Personnel*

No options over unissued ordinary shares were granted to Key Management Personnel during the year ended 30 June 2011 (2010: Nil).

There were no options over unissued ordinary shares granted to Key Management Personnel in existence at the date of this report (2010: 3,000,000). Details of the options forfeited and cancelled by Key Management Personnel during the year can be found at Note 20 to the Financial Statements.

*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 (2010: Nil).

*Value of Key Management Personnel options granted, exercised and lapsed*

The value of Key Management Personnel options granted, exercised or lapsed during the year was as follows. These options are the only at-risk elements of these Directors' and Key Management Personnel's remuneration and no other Directors received at-risk-based remuneration during the year.

**Gage Roads Brewing Co Ltd  
Directors' Report  
For the Year Ended 30 June 2011**

Name	Options granted Value at grant date	Options exercised Value at exercise date	Options lapsed Value at time of lapse	Total value of options granted, exercised and lapsed	Value of options included in remuneration	% of total remuneration consisting of options	% of total remuneration related to performance
	\$	\$	\$	\$	\$	%	%
Nick Hayler	-	-	-	-	3,175	1.4	-
Bill Hoedemaker	-	-	-	-	-	-	-
John Hoedemaker	-	-	-	-	-	-	-

All options were valued using the Black Scholes pricing model or the Binomial pricing model, convert into one ordinary share and carry no dividend or voting rights. Further details of the option valuations and model inputs can be found at Note 20 to the Financial Statements.

No cash bonuses were paid to or forfeited by any Directors or Key Management Personnel during the year ended 30 June 2011 (2010: Nil).

This is the end of the audited remuneration report.

#### **Loans to Directors and Executives**

The Company has not made any loans to Directors or Executives during the financial year to 30 June 2011 and has no carried forward loans from prior years.

#### **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 2010 to 30 June 2011 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 \$6,315 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*.

**Gage Roads Brewing Co Ltd  
Directors' Report  
For the Year Ended 30 June 2011**

---

**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 21.

**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* \$32,577 (2010: \$30,292).

**Non-audit services**

BDO Corporate & International Tax Pty Ltd: Services in relation to taxation advice \$6,455 (2010: \$10,605).

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 23<sup>rd</sup> day of August 2011

**Gage Roads Brewing Co Ltd**  
**Corporate Governance Statement**  
**For the Year Ended 30 June 2011**

---

## **Corporate Governance Statement**

In accordance with ASX Listing Rule 4.10.3 this Corporate Governance Statement sets out the Company's current compliance with the ASX Corporate Governance Council's Principles and Recommendations 2<sup>nd</sup> Edition (**Best Practice Recommendations**). The Best Practice Recommendations are not mandatory. However, the Company is required to provide a statement in this and future annual reports disclosing the extent to which the Company has followed the Best Practice Recommendations.

The Board of the Company has in place a corporate governance policy which is posted in the Company Information section of the Company's website at [www.gageroads.com.au](http://www.gageroads.com.au).

### **BEST PRACTICE RECOMMENDATIONS**

#### **1 Lay solid foundations for management and oversight**

- 1.1 *Companies should establish the functions reserved to the Board and those delegated to senior Executives and disclose those functions.* The Company's Corporate Governance Policy includes a Board Charter, which discloses the specific responsibilities of the Board and provides that the Board shall delegate responsibility for the day-to-day operations and administration of the Company to the Chief Executive Officer and other Executive Directors.
- 1.2 *Companies should disclose the process for evaluating the performance of senior executives.* The Company's Corporate Governance Policy includes Performance Evaluation Practices, which discloses the specific practices of the Board in evaluating executive performance. The Board did not meet during the year to specifically evaluate the performance of senior executives.

#### **2 Structure the Board to add value**

- 2.1 *A majority of the Board should be independent Directors.* Whilst less than half of the current Board are independent Directors (which is not in accordance with the Best Practice Recommendations) the Directors are of the view that the Board is structured in such a way so as to add value and that the number of Directors is appropriate for the size and complexity of the business. A majority of the Board are Non Executive Directors.
- 2.2 *The chair should be an independent Director.* The Chairman, Ian Olson, is considered an independent Chairman as he satisfies the principles of the test for independence as set out in the ASX principles.
- 2.3 *The roles of chair and Chief Executive Officer should not be exercised by the same individual.* The Chief Executive Officer and Chairperson are different people.
- 2.4 *The Board should establish a nomination committee.* It is not Company policy to have a nomination committee given the size and scope of Gage Roads Brewing Co Ltd. The Board, as a whole, serves to identify, appoint and review Board membership through an informal assessment process, facilitated by the Chairman in consultation with the Company's external professional advisors.
- 2.5 *Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.* The Company's Corporate Governance Policy includes Performance Evaluation Practices, which discloses the specific practices of the Board in evaluating its performance. The Board has not met during the year to specifically evaluate the performance of Board members.
- 2.6 *Provide the information indicated in Guide to Reporting on Principle 2.* Information such as the skills, experience and expertise of each Director relevant to their positions and the term they have held office can be found in the Directors' Report. There is a procedure in place which provides for Directors to take independent professional advice at the expense of the Company with the prior approval of the Chairman. The Corporate Governance Policy has been posted on the Company's website.

**Gage Roads Brewing Co Ltd  
Corporate Governance Statement  
For the Year Ended 30 June 2011**

---

**3 Promote ethical and responsible decision-making**

3.1 *Establish a code of conduct and disclose the code or a summary of the code as to:*

- (a) *the practices necessary to maintain confidence in the Company's integrity,*
- (b) *the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and*
- (b) *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

The Company's Corporate Governance Policy includes a Corporate Code of Conduct which provides a framework for decisions and actions in relation to ethical conduct in employment.

3.2 *Companies should establish a policy concerning trading in company securities by Directors, senior Executives and employees, and disclose the policy or a summary of that policy.* The Company's current Security Trading Policy providing guidelines for buying and selling securities in the Company by Directors and employees. Full details of The Securities Trading Policy has been posted on the Company's website. In summary, Directors are required to notify the Chairman (and the Chairman notify the Board) of their intention to trade, confirm that they do not hold any insider information, have been advised by the Chairman (or Board) that there is no reason to preclude trading, and comply with closed periods consisting of two weeks prior to and 24 hours after the release of the Company's Interim and Full Year Financial Reports. Other restricted personnel are required to notify and obtain clearance from the Company Secretary before trading.

3.3 *Provide the information indicated in Guide to Reporting on Principle 3.* The Corporate Governance Policy has been posted on the Company's website.

**4 Safeguard integrity in financial reporting**

4.1 *The Board should establish an Audit Committee.* The Board has an Audit Committee.

4.2 *The Audit Committee should be structured so that it:*

- (a) *consists of only Non-Executive Directors,*
- (b) *consists of a majority of independent Directors,*
- (c) *is chaired by an independent chair, who is not chair of the Board, and*
- (d) *has at least three members.*

The Audit Committee consists of two independent and Non-Executive Directors Ian Olson and Robert Gould (Chairman of the Audit Committee). The Audit Committee Chairman is independent and is not the chairperson of the Board. Whilst two members not in accordance with the Best Practice Recommendations, the Company is of the view that the experience and professionalism of the persons on the committee is sufficient to ensure that all significant matters are addressed and actioned.

4.3 *The Audit Committee should have a formal charter.* The Company's Corporate Governance Policy includes a formal charter for the Audit Committee.

4.4 *Provide the information indicated in "Guide to Reporting on Principle 4".* Information such as the names and qualifications of members of the Audit Committee, the number of meetings of the Audit Committee and the names of the attendees can be found in the Directors' Report. The Audit Committee charter and procedures for the selection and appointment of the external auditor are incorporated in the Corporate Governance Policy which has been posted on the Company's website.

**Gage Roads Brewing Co Ltd**  
**Corporate Governance Statement**  
**For the Year Ended 30 June 2011**

---

**5 Make timely and balanced disclosure**

- 5.1 *Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior Executive level for that compliance.* The Company has a continuous disclosure policy in place designed to ensure the factual presentation of the Company's financial position.
- 5.2 *Provide the information indicated in "Guide to Reporting on Principle 5".* The continuous disclosure policy is incorporated in the Corporate Governance Policy which has been posted on the Company's website.

**6 Respect the rights of Shareholders**

- 6.1 *Companies should design a communications policy for promoting effective communication with Shareholders and encourage their participation at general meetings and disclose their policy or a summary of that policy.* The Company's Corporate Governance Policy includes a Shareholder communications policy which aims to ensure that the Shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to Shareholders through continuous disclosure to the ASX, the annual report, half year financial report, quarterly reports, notices of meetings, the annual general meeting and periodic updates, all of which are posted on the Company's website at [www.gageroads.com.au](http://www.gageroads.com.au).
- 6.2 *Provide the information indicated in "Guide to Reporting on Principle 6".* The Shareholder communications policy is incorporated in the Corporate Governance Policy which has been posted on the Company's website.

**7 Recognise and manage risk**

- 7.1 *Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.* The Company's Corporate Governance Policy includes a risk management and internal compliance and control policy. The Board oversees an ongoing assessment of the effectiveness of risk management and internal compliance and control.
- 7.2 *The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.* The Company's Corporate Governance Policy includes a risk management and internal compliance and control policy which delegates the responsibility of risk management and internal compliance to management and outlines the Company's process of risk management, internal compliance and control. Management reports on the management of material business risks at Board meetings.
- 7.3 *The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.* The statement made in accordance with section 295A of the Corporations Act advises that the statement is founded on a sound system of risk management and internal control and that the Company's risk management and internal compliance and control system, to the extent that they relate to financial reporting, are operating efficiently and effectively in all material respects.
- 7.4 *Provide the information indicated in "Guide to Reporting on Principle 7".* A description of the Company's risk management and internal compliance and control systems is incorporated in the Corporate Governance Policy which has been posted on the Company's website.

**8 Remunerate fairly and responsibly**

- 8.1 *The Board should establish a Remuneration Committee.* The Company's Remuneration Committee comprises two independent Non-Executive Directors Ian Olson and Robert Gould. Whilst two members not in accordance with the Best Practice Recommendations, the Company is of the view that Remuneration Committee is of sufficient size and independence to discharge its mandate effectively and the experience and professionalism of the persons on the committee is sufficient to ensure that all significant matters are addressed and actioned.

**Gage Roads Brewing Co Ltd  
Corporate Governance Statement  
For the Year Ended 30 June 2011**

---

- 8.3 *Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executives.* During the financial year ending 30 June 2011 Non-Executive Directors Ian Olson and Robert Gould were paid a set fee of \$50,000 each per annum. The Company's Constitution provides that the remuneration of Non-Executive Directors will be not be more than the aggregate fixed sum determined by a general meeting. The aggregate remuneration has been set at an amount of \$150,000 per annum. Further information of Executive and Non-Executive remuneration can be found in the section headed "Remuneration Report" in the Directors' Report.
- 8.4 *Provide the information indicated in "Guide to Reporting on Principle 8".* Information such as the names and qualifications of members of the Remuneration Committee, the number of meetings of the Remuneration Committee and the names of the attendees can be found in the Directors' Report. The Company has not yet adopted a formal policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. The Remuneration Committee charter is incorporated in the Corporate Governance Policy which has been posted on the Company's website.

23 August 2011

To The Directors  
Gage Roads Brewing Co Limited  
14 Absolon Street  
PALMYRA WA 6157

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF GAGE ROADS  
BREWING CO LTD**

As lead auditor of Gage Roads Brewing Co Ltd for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.



Glyn O'Brien  
Director



BDO Audit (WA) Pty Ltd  
Perth, Western Australia

**Gage Roads Brewing Co Ltd**  
**Directors' Declaration**  
**As at 30 June 2011**

---

The directors of the company declare that:

- (a) the financial statements comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - (i) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - (ii) give a true and fair view of the Company's financial position as at 30 June 2011 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 Company will be able to pay its debts as and when they become due and payable.
- (c) the remuneration disclosures included on pages 12 to 15 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2011, comply with section 300A of the *Corporations Act 2001*.
- (d) The Company has included in the notes to the financial statements an explicit and unreserved Statement of Compliance with International Financial Reporting Standards.
- (e) The Directors have been given the declarations by the Chief Executive Officer 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 23<sup>rd</sup> day of August 2011

**Gage Roads Brewing Co Ltd**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2011**

	Notes	2011 \$	2010 \$
<b>Revenue from continuing operations</b>			
Sales revenue		15,775,380	5,808,702
Interest revenue		5,445	7,201
	3	15,780,825	5,815,903
Other income		6,011	20,712
Raw materials, consumables & delivery		(8,074,192)	(3,393,801)
Operating expenses		(1,894,759)	(1,358,266)
Employee benefit expenses		(3,855,300)	(2,690,681)
Depreciation and amortisation expenses	4	(349,622)	(350,687)
Sales and marketing expenses		(233,070)	(286,378)
Administration expenses		(542,209)	(476,400)
Occupancy expenses		(260,122)	(256,034)
Finance costs	4	(363,707)	(59,311)
<b>Profit (loss) before income tax</b>		213,855	(3,034,943)
Income tax (expense) benefit	5	(91,434)	3,714,091
<b>Profit for the year</b>		122,421	679,148
<b>Total comprehensive income for the year</b>		122,421	679,148
<b>Profit (loss) and other comprehensive income attributable to the members of Gage Roads Brewing Co Ltd</b>		122,421	679,148
<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>			
Basic profit per share (cents)	18	0.04	0.22

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Gage Roads Brewing Co Ltd**  
**Statement of Financial Position**  
**As at 30 June 2011**

	Notes	2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	2,084,661	889,266
Trade and other receivables	7	680,692	922,280
Inventories	8	888,644	797,420
<b>Total current assets</b>		<u>3,653,997</u>	<u>2,608,966</u>
<b>Non-current assets</b>			
Property, plant and equipment	9	7,504,549	5,764,265
Deferred tax assets	5	3,622,657	3,714,091
Intangible assets	10	3,769	3,769
<b>Total non-current assets</b>		<u>11,130,975</u>	<u>9,482,125</u>
<b>Total assets</b>		<u>14,784,972</u>	<u>12,091,091</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	4,722,993	2,234,703
Borrowings	12	46,174	89,228
<b>Total current liabilities</b>		<u>4,769,167</u>	<u>2,323,931</u>
<b>Non-current liabilities</b>			
Provisions	13	92,800	57,500
Borrowings	14	4,200,000	4,200,000
<b>Total non-current liabilities</b>		<u>4,292,800</u>	<u>4,257,500</u>
<b>Total liabilities</b>		<u>9,061,967</u>	<u>6,581,430</u>
<b>Net assets</b>		<u>5,723,005</u>	<u>5,509,660</u>
<b>EQUITY</b>			
Contributed equity	15	16,674,448	16,586,699
Share options reserve	16	349,028	345,853
Accumulated losses	16	(11,300,471)	(11,422,892)
<b>Total equity</b>		<u>5,723,005</u>	<u>5,509,660</u>

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

**Gage Roads Brewing Co Ltd**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2011**

	Notes	Contributed equity \$	Accumulated losses \$	Share Option reserve \$	Total equity \$
<b>Balance at 1 July 2009</b>		15,735,908	(12,102,040)	338,029	3,971,897
<b>Total comprehensive income for the year</b>		-	679,148	-	679,148
<b>Transactions with equity holders in their capacity as equity holders:</b>					
Issue of share capital, net of transaction costs	15	674,166	-	-	674,166
Employee and other share options expensed		-	-	7,824	7,824
Employee share plan shares expensed	15	176,625	-	-	176,625
<b>Balance at 30 June 2010</b>		<b>16,586,699</b>	<b>(11,422,892)</b>	<b>345,853</b>	<b>5,509,660</b>
<b>Total comprehensive income for the year</b>		-	122,421	-	122,421
<b>Transactions with equity holders in their capacity as equity holders:</b>					
Issue of share capital, net of transaction costs		-	-	-	-
Director share options expensed		-	-	-	-
Employee and other share options expensed	16	-	-	3,175	3,175
Employee share plan shares expensed	15	87,749	-	-	87,749
<b>Balance at 30 June 2011</b>		<b>16,674,448</b>	<b>(11,300,471)</b>	<b>349,028</b>	<b>5,723,005</b>

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

**Gage Roads Brewing Co Ltd**  
**Statement of Cash Flows**  
**For the year ended 30 June 2011**

	Notes	2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		28,652,444	10,044,328
Payments to suppliers and employees (inclusive of GST)		<u>(24,792,529)</u>	<u>(12,144,970)</u>
		<b>3,859,915</b>	<b>(2,100,642)</b>
Interest received		5,445	7,659
Interest paid		<u>(363,707)</u>	<u>(35,591)</u>
<b>Net cash inflow / (outflow) from operating activities</b>	17	<u><b>3,501,653</b></u>	<u><b>(2,128,574)</b></u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		<u>(2,263,205)</u>	<u>(3,309,309)</u>
Proceeds from sale of property, plant and equipment		-	4,111
<b>Net cash outflow from investing activities</b>		<u><b>(2,263,205)</b></u>	<u><b>(3,305,198)</b></u>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities (gross)		-	672,416
Equity raising transaction costs		-	1,750
Proceeds from borrowings		102,315	4,250,405
Repayment of borrowings		<u>(145,368)</u>	<u>(272,299)</u>
<b>Net cash inflow / (outflow) from financing activities</b>		<u><b>(43,053)</b></u>	<u><b>4,652,272</b></u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,195,395</b>	<b>(781,500)</b>
Cash and cash equivalents at the beginning of the financial year		<u>889,266</u>	<u>1,670,766</u>
<b>Cash and cash equivalents at the end of the financial year</b>	6	<u><b>2,084,661</b></u>	<u><b>889,266</b></u>

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

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**As at 30 June 2011**

---

**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*.

*Compliance with IFRS*

The financial statement 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 Company's accounting policies. The major area involving a higher degree of judgement or complexity, and where assumptions and estimates are significant to the Financial Statements, is the recognition basis of the Deferred Tax Asset based on management's assessment of future profits to support its recovery (refer Note 5).

*Going concern*

At 30 June 2011, the company had a working capital deficiency of \$1,115,170. The company has entered into agreements with its financiers to provide banking facilities of \$9.7 million to fund working capital and the future expansion of the company's facilities. The banking facility is secured over the assets of the company and Woolworths Limited has provided a guarantee for the facility.

Should Woolworths Limited not continue to provide the guarantee and support the company and the company be unable to trade profitably or secure alternative funding, there exists a risk that the company may not be able to continue as a going concern.

The Company has adopted a strategic plan which addresses the fundamental requirement of the business to increase production volume to increase total revenue and achieve consistent profitability. Capital infrastructure allowing the Company to produce in excess of 1 million cartons per annum was installed during the last 24 months, and an annualised production volume of over 1 million cartons per annum and an operating profit was achieved in the year ended 30 June 2011. This installed production capacity in conjunction with the contract brewing agreement with Woolworths Limited and the anticipated growth of the Company's proprietary brands is expected to contribute significantly toward achieving ongoing profitability.

The Company monitors its forecasts and cash flows continuously to ensure the Company has sufficient working capital and the financial flexibility required to implement its strategic plan. Current cashflow forecasts show the Company has sufficient funds to meet its obligations as and when they become due and payable.

Should the Company not continue as a going concern, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

**(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.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**As at 30 June 2011**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

**(c) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for major business activities as follows:

*(i) Sale of goods*

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

*(ii) Interest income*

Interest revenue is recognised on a time proportional basis using the effective interest method, see note 1(j).

**(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 of property, plant and equipment where the entity has substantially all the risks and rewards of ownership are classified as finance leases (note 23). Finance leases are capitalised at the lease's inception at the lower of fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of 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.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**As at 30 June 2011**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

**(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.

**(h) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowance for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency of payments, are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the allowance is recognised in the profit and loss.

**(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 Company 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 Statement of Financial Position (note 7).

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 Company has transferred substantially all the risks and rewards of ownership.

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

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

**(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 Company for similar financial instruments.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**As at 30 June 2011**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

**(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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and 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 profit and loss.

**(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.

**(n) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company 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 and loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company 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 accumulating 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.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**As at 30 June 2011**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

**(q) Employee benefits (continued)**

*(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.

**(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 Gage Roads Brewing Co. Ltd 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 and loss.

**(u) Earnings per share**

*Basic earnings per share*

This is calculated by dividing the profit or loss attributable to equity holders of the Company, 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.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**As at 30 June 2011**

---

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

**(v) Excise Tax**

As of the 1 July 2008 the Company 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 Company 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) New accounting standards and interpretations published but not mandatory for 30 June 2011**

AASB 9: Financial Instruments (*Periods beginning on or after 1 January 2013*)

Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to:

- Classification and measurement of financial liabilities; and
- Derecognition requirements for financial assets and liabilities.

However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. The company does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.

IFRS 13: Fair Value Measurement (*Annual reporting periods commencing on or after 1 January 2013*)

Currently, fair value measurement requirements are included in several Accounting Standards. IFRS 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Due to the recent release of this standard, the company has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by IFRS 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013.

IAS 19 (*Periods beginning on or after 1 January 2013*)

Main changes include:

- Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans.
- Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods.
- Subtle amendments to timing for recognition of liabilities for termination benefits.
- Employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.

The company currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to IAS 19 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

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

	2011 \$	2011 \$	2010 \$	2010 \$
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Financial assets</b>				
Cash and cash equivalents	2,084,661	2,084,661	889,266	889,266
Trade and other receivables	680,692	680,692	922,280	922,280
	2,765,353	2,765,353	1,811,546	1,811,546
<b>Financial liabilities at amortised cost</b>				
Trade and other payables	4,722,993	4,722,993	2,234,703	2,234,703
Borrowings	4,246,174	4,246,174	4,289,228	4,289,228
	8,969,167	8,969,167	6,523,931	6,523,931

**(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. 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.

The maximum exposure to credit risk is the carrying amount of the financial assets as disclosed above.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

---

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

---

**(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 \$9.7 million with the ANZ Banking Group which is drawn to \$4.2 million at year-end. The Company has relied on equity raising and prudent management to manage this risk.

<b>2011</b>	<b>&lt; 1 year</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>Total</b>	<b>Carrying Value</b>
Trade payables	3,211,722	-	-	3,211,722	3,211,722
Other payables	1,461,271	50,000	-	1,511,271	1,511,271
Loans & leases	340,174	294,000	4,494,000	5,128,174	4,246,174
<b>Total Payable</b>	<b>5,013,167</b>	<b>344,000</b>	<b>4,494,000</b>	<b>9,851,167</b>	<b>8,969,167</b>

<b>2010</b>	<b>&lt; 1 year</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>Total</b>	<b>Carrying Value</b>
Trade payables	1,756,862	-	-	1,756,862	1,756,862
Other payables	427,841	50,000	-	477,841	477,841
Loans & leases	551,228	4,585,000	-	5,136,228	4,253,944
<b>Total Payable</b>	<b>2,735,931</b>	<b>4,635,000</b>	<b>-</b>	<b>7,370,931</b>	<b>6,488,647</b>

**(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 2011, 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 \$10,370 higher/lower (2010: \$7,348 higher/lower) from interest income on cash and cash equivalents, based upon the average cash on hand balance of \$1,037,073. (2010: \$734,826)

Some 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. Some borrowings are at floating interest rates, thereby exposing the Company to cash flow interest-rate risk through changes in market interest rates.

As at 30 June 2011, 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 \$42,000 higher/lower (2010: \$14,701) from interest expense on borrowings, based upon the average loan balance of \$4,200,000 (2010: \$1,470,132).

---

**Note 3 : Revenue**

---

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<i>Revenue</i>		
Sale of goods	<b>25,279,814</b>	9,685,331
Less: Excise tax collected	<b>( 9,504,434)</b>	( 3,876,629)
Interest	<b>5,445</b>	7,201
	<b>15,780,825</b>	5,815,903
<i>Other revenue</i>		
Sundry sales	<b>6,011</b>	20,712
	<b>6,011</b>	20,712

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 4 : Expenses**

	2011	2010
	\$	\$
<b>Profit (loss) before income tax includes the following specific expenses:</b>		
<i>Depreciation</i>		
Plant and equipment	303,335	305,737
Office equipment	35,441	31,877
Motor vehicles	10,846	13,073
Total depreciation	349,622	350,688
<i>Bad Debt Expense</i>		
Bad debts written off	12,444	106
Bad Debts Expensed	12,444	106
<i>Finance costs</i>		
Interest and finance charges paid/payable	363,707	59,311
Finance costs expensed	363,707	59,311
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	251,928	244,624
Total rental expense relating to operating leases	251,928	244,624
<i>Defined contribution superannuation expense</i>		
Defined contribution superannuation expense	189,264	137,146
Total defined contribution superannuation expense	189,264	137,146

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 5 : Income tax expense / (benefit)**

	2011	2010
	\$	\$
<b>(a) Income tax expense / (benefit)</b>		
Current tax	-	-
Deferred tax - origination of temporary differences	<u>91,434</u>	<u>( 3,714,091)</u>
	<u>91,434</u>	<u>( 3,714,091)</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit (loss) before income tax expense	<u>213,855</u>	<u>( 3,034,943)</u>
Tax at the Australian tax rate of 30% (2010 - 30%)	<u>64,157</u>	<u>( 910,483)</u>
Tax effect of amounts which are not deductible (taxable) in		
Share-based payments	<u>27,277</u>	<u>55,335</u>
Fines and entertaining	<u>-</u>	<u>1,430</u>
Income tax expense / (benefit)	<u>91,434</u>	<u>( 853,718)</u>
<b>(c) Recognised tax losses</b>		
Unused tax losses for which a deferred tax asset has been recognised	<u>12,075,523</u>	<u>12,380,303</u>
Deferred tax asset @ 30%	<u>3,622,657</u>	<u>3,714,091</u>
<b>Movement in Deferred tax asset</b>		
Recognition of deferred tax asset - prior year losses	-	2,860,373
- current year (profit) loss	<u>( 91,434)</u>	<u>853,718</u>
	<u>( 91,434)</u>	<u>3,714,091</u>

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

---

**Note 5 : Income tax expense / (benefit) (continued)**

---

Deferred tax assets and liabilities have been brought to account in 2011 after considering the level of tax losses carried forward and available to the Company 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. The Company believes that due to the growth of Gage Roads' proprietary brands and contract brew brands it is probable that sufficient future taxable profits will be available against which unused tax losses can be utilised.

The Company has investigated the availability of the carry forward tax losses in respect of Divisions 165, 166 and 175 of the Income Tax Assessment Act 1997 (being the satisfaction of the continuity of ownership tests, or alternatively the satisfaction of the same business test and their non preclusion by the income injection provisions) and has formed the opinion that it is more likely than not that the Company will not be prevented from deducting all of its accumulated losses as at 30 June 2011 by virtue of these divisions of the Income Tax Assessment Act 1997.

---

**Note 6 : Current assets - Cash and cash equivalents**

---

	2011	2010
	\$	\$
Cash at bank and in hand	2,084,661	889,266
	<u>2,084,661</u>	<u>889,266</u>

**(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%.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

---

**Note 7 : Current assets - Trade and other receivables**

---

	2011	2010
	\$	\$
Trade receivables	623,501	843,782
Other receivables	57,191	78,498
	680,692	922,280

**(a) Bad and doubtful trade receivables**

Bad and doubtful trade receivables that are known to be uncollectable during the year ended 30 June 2011 have been written off. The Company is unaware of any doubtful trade receivables and has not made any allowance for any doubtful trade receivables as of 30 June 2011. Bad trade receivables which have been expensed during 2011 to bad debts expense are amounts past due which were uncollectable from debtors who did not settle their obligations. Please see note 4 Bad Debt Expense for receivables written off during the year.

**(b) Interest rate risk**

There are no interest-bearing balances in receivables, therefore the Company has no interest rate risk.

**(c) Past due but not impaired**

As of 30 June 2011 trade receivables of \$238,415 (2010 - \$306,099) 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:

	2011	2010
	\$	\$
Up to 3 months	238,415	306,099
3 to 6 months	-	-
	238,415	306,099

**(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 8 : Current assets - Inventories**

---

	2011	2010
	\$	\$
Raw material and stores - at cost	666,903	612,790
Work-in-progress - at cost	111,416	49,888
Finished goods - at cost	110,325	134,742
	888,644	797,420

**Inventory expense**

Inventories recognised as an expense (cost of goods sold) during the year ended 30 June 2011 amounted to \$8,074,192 (2010: \$3,393,801). Inventories written off during the year as new product development costs, obsolete stock and operational waste amounted to \$15,407 (2010: \$184,669).

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 9 : Non-current assets - Property, plant and equipment**

	Plant and equipment	Office equipment	Motor vehicles	Total
<b>At 1 July 2009</b>				
Cost or fair value	2,803,253	69,664	202,387	3,075,304
Accumulated depreciation	(459,711)	(45,888)	(124,668)	(630,267)
Net book amount	2,343,542	23,776	77,719	2,445,037
<b>Year ended 30 June 2010</b>				
Opening net book amount	2,343,542	23,776	77,719	2,445,037
Additions	3,584,199	89,828	-	3,674,027
Depreciation charge	(305,737)	(31,877)	(13,073)	(350,687)
Disposals	(4,111)	-	-	(4,111)
Closing net book amount	5,617,893	81,726	64,646	5,764,265
<b>At 30 June 2010</b>				
Cost or fair value	6,387,452	159,492	202,387	6,749,331
Accumulated depreciation	(769,559)	(77,765)	(137,741)	(985,065)
Net book amount	5,617,893	81,726	64,646	5,764,265
<b>Year ended 30 June 2011</b>				
Opening net book amount	5,617,893	81,726	64,646	5,764,265
Additions	2,073,080	16,826	-	2,089,906
Depreciation charge	(303,335)	(35,441)	(10,846)	(349,622)
Disposals	-	-	-	-
Closing net book amount	7,387,638	63,111	53,800	7,504,549
<b>At 30 June 2011</b>				
Cost or fair value	8,460,532	176,317	202,387	8,839,236
Accumulated depreciation	(1,072,894)	(113,206)	(148,587)	(1,334,687)
Net book amount	7,387,638	63,111	53,800	7,504,549

**(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. As it is not yet available for use this plant and equipment has not been depreciated.

	<b>2011</b>	2010
	<b>\$</b>	<b>\$</b>
Plant and equipment	<b>476,709</b>	2,473,806

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

Refer to note 14 for information on non-current assets pledged as security by the Company.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

---

**Note 10 : Non-current assets - Intangible assets**

---

**At 1 July 2009**

Cost or fair value	3,769
Net book amount	3,769

**Year ended 30 June 2010**

Opening net book amount	3,769
Closing net book amount	3,769

**Year ended 30 June 2011**

Opening net book amount	3,769
Closing net book amount	3,769

**Trademarks**

Trademarks are considered to have an indefinite useful life, in accordance with note 1(m).

---

**Note 11 : Current liabilities - Trade and other payables**

---

	2011	2010
	\$	\$
Trade payables	3,020,301	1,392,144
Payables for capital purchases	191,421	364,718
GST payable	787,323	84,274
Other payables (a)	723,948	393,567
	4,722,993	2,234,703

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

Other payables include accruals for annual leave. The entire obligation is expressed as Current 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 \$50,000 (2010: \$50,000).

**(b) Risk exposure**

Information about associated credit and fair value risk is set out in note 2.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

---

**Note 12 : Current liabilities - Borrowings**

---

	2011	2010
	\$	\$
<b>Secured</b>		
Lease liabilities (note 23)	-	14,107
Other loans (a)	-	39,838
Total secured current borrowings	-	53,945
<b>Unsecured</b>		
Insurance premium funding	46,174	35,283
Total current borrowings	46,174	89,228

**(a) Other loans**

These are chattel mortgages secured over specific assets to be repaid within 1 year.

**(b) Risk exposure**

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

**(c) Fair value disclosures**

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

**(d) Security**

Details of the security relating to each of the secured liabilities are set out in note 14.

---

**Note 13 : Non Current liabilities - Provisions**

---

	2011	2010
	\$	\$
Provision for long service leave	92,800	57,500
	92,800	57,500

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 14 : Non-current liabilities - Borrowings**

	2011 \$	2010 \$
<b>Secured</b>		
Bank loans (a)	4,200,000	4,200,000
Total secured non-current borrowings	<u>4,200,000</u>	<u>4,200,000</u>
Total non-current borrowings	<u>4,200,000</u>	<u>4,200,000</u>

**(a) Bank loans**

This loan with the ANZ Banking Group is secured by a fixed and floating charge over the assets of the Company, and guaranteed by Woolworths Limited. Repayment is due on 1 July 2013 and the facility is subject to an annual review by the bank on 1 July 2012.

**(b) Risk exposure**

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

**(c) Assets pledged as security**

Lease liabilities are effectively secured as the rights to the leased assets recognised in the Financial Statements revert to the lessor in the event of default. Other loans are secured by fixed and floating charges over plant and equipment and motor vehicles.

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

	2011 \$	2010 \$
<i>Fixed &amp; Floating charges</i>		
Plant and equipment	7,450,749	5,658,314
Motor vehicles	53,800	37,345
	<u>7,504,549</u>	<u>5,695,659</u>
<i>Finance lease</i>		
Plant and equipment	-	47,503
Motor vehicles	-	21,104
	<u>-</u>	<u>68,607</u>
Total assets pledged as security	<u>7,504,549</u>	<u>5,764,266</u>

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 15 : Contributed equity**

	2011 Shares	2010 Shares	2011 \$	2010 \$
<b>(a) Share Capital</b>				
Ordinary shares				
Fully paid	<b>305,043,545</b>	303,918,559	<b>16,674,448</b>	16,586,699
<b>(b) Movement in contributed equity:</b>				
<b>1 July (opening balance)</b>	<b>303,918,559</b>	302,643,559	<b>16,586,699</b>	15,735,908
<i>Issues of shares during the year</i>				
ORD shares issued to employees	<b>1,124,986</b>	1,275,000	<b>87,749</b>	176,625
Second component of issue price .88¢ per share on 76,410,890 shares issued to Woolworths Limited				672,416
Capital raising costs				1,750
<b>30 June (closing balance)</b>	<b>305,043,545</b>	303,918,559	<b>16,674,448</b>	16,586,699

At 30 June 2011 there were 305,043,545 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 are to maintain an ability to trade as a going concern, 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 16 : Reserves and accumulated losses**

	2011 \$	2010 \$
<b>(a) Share options reserve</b>		
Movements in share options reserve were as follows:		
Balance 1 July	<b>345,853</b>	338,029
Options expensed (KMP Remuneration)	<b>3,175</b>	7,824
Balance 30 June	<b>349,028</b>	345,853
The share options reserve is used to recognise the fair value of options issued but not exercised.		
<b>(b) Accumulated losses</b>		
Movements in accumulated losses were as follows:		
Balance 1 July	<b>(11,422,892)</b>	(12,102,040)
Net profit (loss) for the year	<b>122,421</b>	679,148
Balance 30 June	<b>(11,300,471)</b>	(11,422,892)

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 17 : Reconciliation of profit after income tax to net cash outflow from operating activities**

	2011	2010
	\$	\$
Profit (loss) for the year	122,421	679,148
Depreciation and amortisation	349,622	350,687
Share option expense	3,175	7,824
Employee share issue expense	87,749	176,625
(Increase) decrease in Future Tax Benefit	91,434	(3,714,091)
Changes in operating assets and liabilities		
(Increase) decrease in trade debtors	220,281	(630,888)
(Increase) decrease in other debtors	21,308	(75,990)
(Increase) decrease in inventories	(91,224)	(197,013)
Increase (decrease) in trade creditors	1,628,158	1,139,687
Increase (decrease) in other operating liabilities	1,033,429	106,825
Increase (decrease) in other provisions	35,300	28,612
Net cash outflow from operating activities	<u>3,501,653</u>	<u>(2,128,575)</u>

**Note 18 : Earnings Per Share**

	2011	2010
Basic earnings per share ("EPS") (cents)	0.04	0.22
Diluted earnings per share (cents)	0.04	0.22
<b>(a) Basic earnings per share</b>	<b>\$</b>	<b>\$</b>
Profit (loss) used in calculating basic EPS	122,421	679,148
Weighted average number of ordinary shares used in calculating basic EPS	304,328,500	303,185,000

The profit (loss) used in the calculation of basic earnings per share equates to the net profit (loss) in the statement of 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.

**(b) Diluted earnings per share**

The diluted profit (loss) per share is the same as the basic profit (loss) per share as the Company's potential ordinary shares are not likely to be diluted as there are no currently issued options at 30 June 2011.

**Note 19 : Non-cash investing and financing activities**

	2011	2010
	\$	\$
Acquisition of plant and equipment by means of hire purchase agreements	<u>-</u>	<u>-</u>

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 20 : Share-based payments**

**(a) Incentive Option Scheme**

The Company has in place an Option Incentive Scheme approved by Directors on 31 October 2006 with the purpose of encouraging participation by eligible employees in the Company through share ownership and to attract, motivate, and retain eligible employees. The Incentive Option Scheme is designed to provide long-term incentives for employees, including Directors, to deliver long-term shareholder returns. Under the plan, participants may be granted options which vest if certain performance or continued service standards are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

During 2011, 3,000,000 options issued to employees were voluntarily forfeited and cancelled, as they were significantly "out of the money" and there are no options over unissued shares that have been issued in accordance with the option incentive scheme as at 30 June 2011.

**Employee Incentive Scheme Options**

2011	Date options granted	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
Nick Hayler	12-Jul-07	12-Jul-12	\$0.40	250,000	-	-	250,000	-	-
Nick Hayler	19-Dec-07	19-Dec-12	\$0.20	750,000	-	-	750,000	-	-
Nick Hayler	19-Dec-07	19-Dec-12	\$0.30	750,000	-	-	750,000	-	-
Nick Hayler	19-Dec-07	19-Dec-12	\$0.40	750,000	-	-	750,000	-	-
Aaron Heary	12-Jul-07	12-Jul-12	\$0.40	250,000	-	-	250,000	-	-
Donald Pleasance	12-Jul-07	12-Jul-12	\$0.40	250,000	-	-	250,000	-	-
<b>Total</b>				<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>3,000,000</b>	<b>-</b>	<b>-</b>

**Employee Incentive Scheme Options**

2010	Date options granted	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
Nick Hayler	12-Jul-07	12-Jul-12	\$0.40	250,000	-	-	-	250,000	250,000
Nick Hayler	19-Dec-07	19-Dec-12	\$0.20	750,000	-	-	-	750,000	750,000
Nick Hayler	19-Dec-07	19-Dec-12	\$0.30	750,000	-	-	-	750,000	750,000
Nick Hayler	19-Dec-07	19-Dec-12	\$0.40	750,000	-	-	-	750,000	-
Aaron Heary	12-Jul-07	12-Jul-12	\$0.40	250,000	-	-	-	250,000	250,000
Donald Pleasance	12-Jul-07	12-Jul-12	\$0.40	250,000	-	-	-	250,000	250,000
<b>Total</b>				<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,000,000</b>	<b>2,250,000</b>

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

---

**Note 20 : Share-based payments (continued)**

---

***(i) Incentive Option Scheme options issued to employees - 12 July 2007***

750,000 options over unissued ordinary shares were granted on 12 July 2007 to three employees of the Company in accordance with the Company's Incentive Option Scheme as part of their remuneration and having regard for their past and potential contribution to the Company.

Each option entitles the holder to subscribe for and be allotted one share at an exercise price of \$0.40 per share. The options are only capable of being exercised if the holder is in the current employment of the Company (with an additional 30 day grace period). The options vest at grant date and have a term of 5 years.

The fair value at grant date of \$39,450 was calculated using the Black Scholes pricing model that took into account the term of the options, 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 options granted included:

- exercise price is \$0.40,
- market price of option at grant date, \$0.215,
- expected volatility of the Company's shares is 55%,
- risk-free interest rate used is 6.40%,
- time to maturity, 5 years; and
- no dividend yield was projected during the term.

The expected volatility during the term of the options is based around assessments of the volatility of similar-sized listed, including newly listed, entities and entities in similar industries at grant date.

As the options vested immediately on the grant date the total value of the options of \$39,450 was expensed to remuneration and accounted for in the share option reserve in the financial year ended 30 June 2008.

During 2011, 750,000 options issued to employees were voluntarily forfeited and cancelled.

***(ii) Incentive Option Scheme options issued to Key Management Personnel - 19 December 2007***

2,250,000 options in total were granted to the CEO Nick Hayler on 19 December 2007 in accordance with the Company's Incentive Option Scheme as part of his remuneration having regard to the length of service and his past and potential contribution to the Company.

Each option entitles the holder to subscribe for and be allotted one share at an exercise price of between \$0.20 and \$0.40 per share. The options were issued in three tranches, the first tranche vesting in one year from the grant date with an exercise price of \$0.20, the second tranche vesting in two years with an exercise price of \$0.30, the third tranche vesting in three years with an exercise price of \$0.40. The vesting of the options is subject to the option holder being an employee or Director of the Company during the vesting periods.

The fair value at grant date of \$49,950 was calculated using the Black Scholes pricing model that took into account the term of the options, 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 options granted included:

- exercise price of \$0.20 - \$0.40,
- market price of option at grant date, \$0.12,
- expected volatility of the Company's shares is 40%,
- risk-free interest rate used is 6.52%,
- time to maturity, 5 years; and
- no dividend yield was projected during the term.

The expected volatility during the term of the options is based around assessments of the volatility of similar-sized listed, including newly listed, entities and entities in similar industries at grant date.

During 2011, 2,250,000 options issued to key management personnel were voluntarily forfeited and cancelled.



**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 21 : Related party transactions (continued)**

<b>(b) Key Management Personnel compensation</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Short-term employment benefits		
- CEO & Executive Directors	<b>597,196</b>	556,260
- Non-Executive Directors	<b>103,156</b>	102,778
Post-employment benefits	<b>48,600</b>	45,900
Share-based payments (note 20)	<b>3,175</b>	7,824
	<u><b>752,127</b></u>	<u>712,762</u>

**(c) Transactions and loans with related parties**

There have been no transactions or loans with Key Management Personnel and their related parties during the current or prior year.

**(d) Equity instrument disclosures relating to Key Management Personnel**

*(i) Options provided as remuneration and shares issued on exercise of such options*

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in Note 20.

*(ii) Option holdings*

The number of options over ordinary shares in the Company held during the financial year by Key Management Personnel of Gage Roads Brewing Ltd, including their personally related parties, are as follows:

	<b>Balance at start of the year</b>	<b>Cancelled - Forfeited</b>	<b>Exercised</b>	<b>Balance at end of the year</b>
<b>2011</b>				
<b><i>Directors</i></b>				
Ian Olson	-	-	-	-
Steven Greentree	-	-	-	-
Robert Gould	-	-	-	-
Bill Hoedemaker	-	-	-	-
John Hoedemaker	-	-	-	-
<b><i>Executive Key Management</i></b>				
Nick Hayler	2,500,000	(2,500,000)	-	-
	<u>2,500,000</u>	<u>(2,500,000)</u>	-	-

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 21 : Related party transactions (continued)**

	Balance at start of the year	Cancelled - Forfeited	Exercised	Balance at end of the year
<b>2010</b>				
<b>Directors</b>				
Ian Olson	-	-	-	-
Steven Greentree	-	-	-	-
Robert Gould	-	-	-	-
Bill Hoedemaker	-	-	-	-
John Hoedemaker	-	-	-	-
<b>Executive Key Management</b>				
Nick Hayler	2,500,000	-	-	2,500,000
	2,500,000	-	-	2,500,000

1,750,000 of the options were vested and exercisable at the year-end 30 June 2010.

*(iii) Shareholdings*

The number of shares in the Company held during the financial year by each Director of Gage Roads Brewing Ltd, including their personally related entities, are set out below. There were no shares granted during the reporting period as compensation, nor shares received due to the exercise of options.

	Nomin- ally Held <sup>+</sup>	Balance at start of the year	Net Purchase (Disposal) of shares	Employee Share Plan Shares Received	Balance at end of the year
<b>2011</b>					
<b>Directors</b>					
Ian Olson	100%	2,470,587	-	-	2,470,587
Robert Gould	0%	18,280,986	(17,280,986)	-	1,000,000
Steven Greentree	0%	-	-	-	-
Bill Hoedemaker*	98%	404,669	-	-	404,669
John Hoedemaker*	98%	404,669	-	-	404,669
<b>Executive Key Management</b>					
Nick Hayler <sup>^</sup>	6%	492,517	(462,517)	-	30,000
		22,053,428	(17,743,503)	-	4,309,925

\* Bill Hoedemaker and John Hoedemaker are both beneficiaries of two discretionary trusts, The Leijenaar Trust and The Ottor Trust, which are not in their control. Pieter Hoedemaker atf The Leijenaar Trust and the Ottor Trust holds 10,218,730 ordinary shares as at 30 June 2011 (FY10: 10,528,503). 309,773 shares were disposed of during the year (FY10: Nil).

<sup>^</sup> The disposal of Nick Hayler's shares as indicated in the table are shares which were held by his spouse whom is no longer a related party following their divorce during the year.

<sup>+</sup> Percentage of 2011 year end balance held directly in the Director's name.

No shares were received from the exercise of options in 2011.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 21 : Related party transactions (continued)**

	Nomin- ally Held <sup>+</sup>	Balance at start of the year	Net Purchase (Disposal) of shares	Employee Share Plan Shares Received	Balance at end of the year
<b>2010</b>					
<b>Directors</b>					
Ian Olson	100%	2,470,587		-	2,470,587
Robert Gould	0%	18,280,986		-	18,280,986
Steven Greentree	0%	-	-	-	-
Bill Hoedemaker*	98%	404,669		-	404,669
John Hoedemaker*	98%	404,669		-	404,669
<b>Executive Key Management</b>					
Nick Hayler	1%	3,562,157	(3,069,640)	-	492,517
		25,123,068	(3,069,640)	-	22,053,428

\* Bill Hoedemaker and John Hoedemaker are both beneficiaries of two discretionary trusts, The Leijenaar Trust and The Ottor Trust, which are not in their control. Pieter Hoedemaker atf The Leijenaar Trust and the Ottor Trust holds 10,528,503 ordinary shares as at 30 June 2010 (FY09: 10,528,503). No shares were purchased, disposed of or recieved during the year (FY09: 5,000,000 shares were purchased).

+ Percentage of 2010 year end balance held directly in the Director's name.  
No shares were received from the exercise of options in 2010.

**Note 22 : 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:

	2011 \$	2010 \$
<b>(a) Assurance services</b>		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	32,577	30,292
Total remuneration for assurance services	32,577	30,292
<b>(b) Non-audit services</b>		
BDO Audit (WA) Pty Ltd		
Services in relation to the underwriting agreements	-	-
BDO Corporate & International Tax Pty Ltd		
Services in relation to taxation advice	6,455	10,605
Total remuneration for non-assurance services	6,455	10,605

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

**Note 23 : Commitments**

	2011	2010
	\$	\$
<b>(a) Lease commitments - Company as lessee</b>		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	257,394	251,898
Later than one year but not later than five years	476,966	717,743
	734,360	969,641
Representing:		
Operating leases as per (i) below	734,360	969,223
Future finance charges on finance leases as per (ii) below	-	418
	734,360	969,641

*(i) Operating leases*

The Company leases its premises under an operating lease expiring 1 May 2014. The lease has annual CPI and 5 yearly market review escalation clauses and an option of renewal. The commitments below relate to the primary lease agreement period. The Company has the option to extend the lease for a further period of 5 years.

The Company leases a wrap packaging machine under an operating lease expiring 29 September 2013. The Company has the option to extend the lease for a further indefinite period at a peppercorn payment.

Commitments for minimum lease payments in relation to operating leases are payable as follows:

Within one year	257,394	251,480
Later than one year but not later than five years	476,966	717,743
	734,360	969,223

*(ii) Finance leases*

The Company had previously financed various motor vehicles with a carrying amount of nil (2010 - \$47,136) under hire purchase agreements expiring during the current year. Under the terms of the agreements the Company had the option to acquire the hire purchase assets at pre-determined balloon amounts on the expiry of the agreements.

The company had financed a carton packaging machine under a financial lease expiring 1 September 2010.

Commitments in relation to finance leases are payable as follows:

Within one year	-	14,525
Later than one year but not later than five years	-	-
Minimum lease payments	-	14,525
Future finance charges	-	(418)
Total lease liabilities	-	14,107

Representing lease liabilities:

Current (note 12)	-	14,107
Non-current (note 14)	-	-
	-	14,107

The weighted average interest rate implicit in the leases is Nil (2010 - 7.98%).

**(b) Capital Commitments**

The 4 year capital expansion program has commenced and the Company has current commitments to specific items of capital expenditure totaling \$1,459,569 (2010: \$300,000), which is expected to be expended over the next few months.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**30 June 2011**

---

**Note 24 : Events occurring after the reporting date**

---

On 17 August 2011 Nick Hayler resigned from his position as Chief Executive Officer to pursue his career in a new industry sector. In keeping with the Company's succession plan, The Board appointed John Hoedemaker as Managing Director on the same date.

No other matter or circumstance has arisen since 30 June 2011 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 25 : Segment reporting**

---

Management has determined that the company has two reportable segments, being proprietary brand brewing and contract brewing. As the processes from production to retailing is almost identical for both products, and they exhibit similar economic characteristics, they meet the AASB 8 criteria for aggregation.

Due to the extensive overlapping of the two reportable segments, the Board monitors the company based on overall Net Profit level along with production volumes. This internal reporting framework is considered the most relevant to assist the chief operating decision maker with making decisions regarding the company and its operating activities.

	2011	2010
	\$	\$
Revenue from external sources	15,775,380	5,808,702
Net profit before tax	213,855	(3,034,943)
Reportable segment assets	14,784,972	12,091,091
Reportable segment liabilities	9,061,967	6,581,430

Woolworths Limited is a major customer of the company as defined by AASB 8, as revenue from that customer exceeds 10% of total revenue from external sources. The Company sells into the Woolworth's national distribution network and also to other national and international outlets.

---

**Note 26 : Contingencies**

---

The Company had no contingent assets or liabilities as at 30 June 2011 or 2010.

---

**Note 27 : ASX Waiver**

---

The ASX has granted the Company a waiver of Listing Rule 6.18 to permit Woolworths Limited to maintain, by way of a right to participate in any issue of shares or to subscribe for shares, its percentage interest in the issued capital of the Company. This right shall lapse upon the earlier of:

- Woolworths' interest in the Company falling below 5%;
- the strategic relationship between the Company and Woolworths ceasing; and
- 30 June 2014.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GAGE ROADS BREWING CO LTD

### Report on the Financial Report

We have audited the accompanying financial report of Gage Roads Brewing Co Ltd, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Gage Roads Brewing Co Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

## Opinion

In our opinion:

- (a) the financial report of Gage Roads Brewing Co Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies *with International Financial Reporting Standards* as disclosed in Note 1(a).

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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.

## Opinion

In our opinion, the Remuneration Report of Gage Roads Brewing Co Ltd for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

**BDO Audit (WA) Pty Ltd**



**Glyn O'Brien**  
Director

Perth, Western Australia  
Dated this 23<sup>rd</sup> day of August 2011

**Gage Roads Brewing Co Ltd**  
**Additional ASX Information**  
**As at 22 August 2011**

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 22 August 2011.

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

<b>Shareholder</b>	<b>Fully Paid Ordinary Shares</b>	
	<b>Ordinary Shares</b>	<b>Percentage</b>
Woolworths Ltd	76,410,890	25.05%
Shimin Song	51,881,412	17.01%
Top Nominees Pty Ltd	47,574,890	15.60%

**Top 20 Shareholders**

**(a) Fully Paid Ordinary Shares**

<b>Shareholder</b>	<b>Fully Paid Ordinary Shares</b>	
	<b>Ordinary Shares</b>	<b>Percentage</b>
Woolworths Ltd	76,410,890	25.05%
Shimin Song	51,881,412	17.01%
Top Nominees Pty Ltd	47,574,890	15.60%
Jamie Phillip Boyton	10,922,986	3.58%
Pieter Hoedemaker	10,218,730	3.35%
Giromol Pty Ltd	7,851,830	2.57%
Daniel Christopher Broeren	4,232,212	1.39%
Aaron Heary	3,143,979	1.03%
J P Morgan Nominees Australia	3,000,000	0.98%
Ian Peter Olson	2,470,587	0.81%
Vernon Charles & Joycelyn Edith Wheatley	2,310,000	0.76%
Jane Linda Nolin	1,836,810	0.60%
Bond Street Custodians Ltd	1,455,000	0.48%
Annapurna Pty Ltd	1,252,432	0.41%
Nordana Pty Ltd	1,250,000	0.41%
Bill Vlahos	1,111,817	0.36%
Stuart Charles Sands Hicks	1,076,855	0.35%
Raign Pty Ltd	1,031,250	0.34%
Paul Randell Camerer	1,026,667	0.34%
Ian Lawton Barden & Lesley Corrie Barden	1,000,000	0.33%

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

There are NIL options over ordinary shares	-	0.00%
--	---	-------

**Gage Roads Brewing Co Ltd**  
**Additional ASX Information**  
**As at 22 August 2011**

**Additional ASX Information (continued)**

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

Range	Total Holders	Units	Percentage
1-1,000	23	5,327	0.00%
1,001-5,000	99	420,080	0.14%
5,001-10,000	206	1,731,277	0.57%
10,001-100,000	613	23,897,742	7.83%
100,001-9,999,999	182	278,989,119	91.46%
<b>Total</b>	<b>1,123</b>	<b>305,043,545</b>	<b>100.00%</b>

As at 22 August 2011 there were 216 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 22 August 2011 there are nil ordinary shares and options held in escrow.