

# Appendix 4D Half-Year Report

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

For the half-year ended 31 December 2017

### Results for announcement to the market

Revenue from ordinary activities	even	0%	to	\$13,797,779
Profit from ordinary activities after tax attributable to members	down	70%	to	\$420,625
Net profit attributable to members	down	70%	to	\$420,625

### Dividends (distributions)

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

<b>Net tangible assets per share</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>\$ 0.03</b>	<b>\$ 0.03</b>

### 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 and joint venture entities during the period.

### Reporting Periods

The current reporting period is the half-year ended 31 December 2017. The previous corresponding period is the half-year ended 31 December 2016.

## Commentary on the results for the half-year ended 31 December 2017

- Proprietary brand sales 34% of overall sales mix (up from 29% in H1 FY17)
- Gross Profit margin 59%, up from 55% in H1 FY17
- Sales to independent retailers up 184%
- Proprietary draught sales up 167%
- Revenue \$13.8 million (in line with H1 FY17: \$13.8 million)
- New products launched, *Alby Draught*, *Alby Crisp* and *Hello Sunshine Cider*
- Commenced deliveries to Optus Stadium

\* One carton equivalent = 7.92L = 24 x 330mL bottles = 0.16 X 50L kegs.

### Sales Results

Gage Roads has continued to deliver on its key leading indicators, 18 months into our 5-year proprietary brand strategy “*Returning to Craft*” with strong uplifts in proprietary brand sales into both the independent retail channel and the on-premise draft channel.

At its core, this strategy seeks to increase the awareness of Gage Roads’ proprietary brands and expand those brands into broader markets, driving incremental sales from the previously untapped independent retail and on-premise channels to market. Greater consumer awareness and access to these channels is expected to continue to increase volumes of the Gage Roads proprietary brands, delivering improved margins and sustained earnings growth.

The national sales and marketing capability performed strongly with sales to the independent retail channel a solid contributor to the first half, up 184% over H1 FY17.

The Company’s draught strategy also generated improved results with sales and distribution targets currently exceeding our internal expectations. During the first half of FY18 sales of Gage Roads’ higher-margin proprietary draught products increased 167% over H1 FY17.

As previously announced large inventory balances at national chains at the beginning of the financial year resulted in lower sales of our proprietary products to the national chains in H1. During the half-year, continued strong consumer demand at store level has reduced the inventory balances to normal levels and we expect full year sales to the national chains to meet expectations.

Despite the softer sales of proprietary products to the national chains, the strong growth in the independent retail and draught channels resulted in total proprietary brands sales for the half-year being up 16% to 1.85 million Litres in comparison to H1 FY17 (1.60 million Litres).

Consistent with our 5-year strategy, contract brewing volumes continue to be unwound in an orderly manner. Accordingly, sales volumes of the Company’s contract-brewing division, Australian Quality Beverages (AQB), were down 11% compared with H1 FY17.

The increased proprietary brand sales and the lower AQB sales resulted in a total throughput of 5.4 million Litres, in line with our strategy’s target of 11 million Litres per annum, however down 3.5% from H1 FY17, 5.6 million Litres.

Despite the well anticipated softer H1 total volumes, the last 6 months have seen significant inroads made in shifting the revenue mix towards higher margin products. Gage Roads’ proprietary brands, representing the most profitable products in sales portfolio, now represent 34% of the company’s total revenue stream, up from 29% this time last year.

These strong proprietary brand results have delivered H1 revenues of \$13.8 million (H1 FY17: \$13.8 million) and an improved gross profit margin to 59% (up from 55% H1 FY17).

The Company expects to meet its full year sales ambitions of at least 11 million Litres and is on track to deliver growth in earnings and margins through the shift in sales mix towards higher-margin proprietary brands as the management team delivers on year 2 of our 5-year strategy.

## Marketing

In September 2017, Gage Roads was formally appointed as the exclusive supplier of beer and cider to Optus Stadium and Stadium Park, the 60,000-seat, world-class sport and entertainment stadium and precinct in Western Australia. Supplying beer and cider exclusively at one of the best sporting venues in the world is an extraordinary opportunity for our proprietary brand strategy and major milestone for Gage Roads.

The supply agreement allows for the exclusive sale of Gage Roads draught and packaged products at Optus Stadium and Stadium Park. In exchange, Gage Roads provides annual rights fees, volume rebates and sponsorship fees to the operator.

The stadium strategy is a significant and additional part of the Company's marketing investment. However, at expected attendance levels and consumption volumes, the return on sales offsets the costs to the extent that the stadium strategy is not expected to have a net material impact on the Company's earnings.

An added benefit of the stadium strategy is that strong demand during winter months is likely to offset what has traditionally been lower sales volumes during those months.

The unprecedented brand and product exposure provided at Perth Stadium is expected to accelerate sales growth through our existing channels to market and deliver incremental earnings.

During second quarter the Company successfully launched a number of products into the market. *ALBY Draught* (4.2%) and *ALBY Crisp* (3.5%) are classic lagers that have a parochial Western Australian connection with a strong focus on locally sourced ingredients. The Company is entering into this market to take advantage of its unique position as the only regional brewer capable of producing high quality, high volume lager beer in Western Australia. This is beer proudly made in WA, by locals, for locals. *ALBY* is a classic, no fuss, West Australian lager.

*Hello Sunshine* is an apple cider extension to the Gage Roads Craft Range that has been developed in collaboration with Fringe World. Part proceeds of the sale of every Litre of Hello Sunshine will go back to funding grassroots arts development in WA.

All of these products will be available in retail and on-premise and will be cornerstone offerings at Optus Stadium. Initial sales results have exceeded expectations and consumer feedback has been overwhelmingly positive.

Gage Roads signed a two-year partnership with Rugby Australia to become one of the official beer partners for the HSBC Sydney 7s event, which kicked off on Australia Day. This partnership is reflective of our marketing strategy to use brand-in-hand events to drive increased consumer awareness.

The Company's events-based "brand in hand" marketing strategy, designed to be earnings neutral, is performing strongly and delivering increased consumer awareness around the nation in keeping with our 5-year strategy.

## Earnings Results

The Company recorded revenues of \$13.8 million for the half-year, on par with those achieved in the previous corresponding period despite lower overall volumes (down 3.5%). The continued shift in the product mix towards the Company's proprietary brands resulted in additional gross profit of \$0.45 million for H1 FY18 and has lifted the overall gross profit margin from 55% to 59%, on track with our FY21 target of 70%.

Consistent with our 5-year strategy the business has continued to invest in our sales and marketing capabilities, increasing sales and marketing expenditure by \$0.6m and also accounting for an additional \$0.6 million in employee expenses.

Administration costs were lower in the current half-year as H1 FY17 contained \$0.2 million one-off expenditures relating to the Company's capital raising activities at that time. As the Company has paid down its debt in full during H1 FY18, finance costs were reduced accordingly.

Overall, the Company recorded an EBITDA result of \$1.3 million for H1 FY18 (down \$1.5 million from H1 FY17: \$2.8 million). This result is in keeping with the Company's expectations. In comparing the two results, we note that the prior year result included \$0.9 million in non-recurring other income relating to a settlement with an equipment supplier and a tax refund.

### **Cash Flow and Balance Sheet**

Net operating cash outflows were neutral for the half and were a result of lower Q1 sales as discussed above as well as an increase in inventories required to meet forecast summer demand.

During the half-year the Company applied \$2 million to the repayment of all debt and the Company is now in a debt free position. Debt facilities (to an approved limit of \$6 million) remain in place and undrawn.

The Company has ended the half-year with cash reserves of \$4 million. With an additional headroom in its credit facility the Company is in a strong position, providing an excellent financial platform from which to continue to execute its proprietary brand strategy.

### **Outlook**

- Continued growth into the independent retail and on-premise channels to market
- Increasing national marketing visibility and consumer awareness
- Optus Stadium initial volumes exceeding expectations
- New brands Alby Draught, Alby Crisp and Hello Sunshine Cider are resonating well with consumers and retailers
- We anticipate a stronger H2, delivering full year sales ambitions of at least 11 million Litres and growth in earnings and margins in line with our 5-year strategic goals.

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

Managing Director John Hoedemaker said the Company is delivering on its 5-year proprietary brands strategy:

"I am extremely proud of the team that put together the Optus Stadium tender and Rugby 7s sponsorship in NSW. These appointments are a ringing endorsement of the strength of our brands, people and the quality of our award-winning range of products. They are directly aligned with our 5-year proprietary brands strategy, delivering on increased consumer awareness and incremental sales and earnings in both existing and new channels to market.

"I am very pleased to see the positive consumer response to the ALBY and Hello Sunshine brands as they were launched this half into the retail market and during the first few events at Optus Stadium.

"The momentum of the increased distribution through bottle shops and tap points of our brands is exciting and shows that our 5-year proprietary brand strategy is well on track."

John Hoedemaker  
**Managing Director**

Please refer to the attached Financial Report for the half-year ended 31 December 2017 for further information.

## 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 auditor's review report is attached.
6. The entity has a formally constituted audit committee.

Signed:

  
Company Secretary

Date: 27 February 2018

Name:

Marcel Brandenburg



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**GAGE ROADS BREWING CO LIMITED  
FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**ABN 22 103 014 320**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the annual report for the year ended 30 June 2017, and any public announcements made by Gage Roads Brewing Co Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

**Gage Roads Brewing Co Ltd**  
**Financial Report**  
**For the Half-Year Ended 31 December 2017**

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**Corporate Directory**

**Directors**

Graeme Wood  
Ian Olson (Chairman)  
John Hoedemaker  
Robert Gould

**Managing Director**

John Hoedemaker

**Company Secretary**

Marcel Brandenburg

**Principal Place of Business  
& Registered Office**

14 Absolon Street  
PALMYRA WA 6157  
Tel: (08) 9314 0000  
Fax: (08) 9331 2400  
Web: [www.gageroads.com.au](http://www.gageroads.com.au)

**Postal Address**

PO Box 2024  
PALMYRA WA 6961

**Auditor**

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

**Legal Adviser**

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

**Stock Exchange Listing**

ASX Limited  
Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

ASX Code: GRB

**Share Registry**

Automic Registry Services  
PO Box 226,  
STRAWBERRY HILLS NSW 2012

*Registry Enquiries*

Within Australia: 1300 288 664  
Outside Australia: (+61 8) 9324 2099

**Gage Roads Brewing Co Ltd**  
**Financial Report**  
**For the Half-Year Ended 31 December 2017**

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**Contents**

Review of Operations .....	4
Directors' Report .....	7
Auditor's Independence Declaration .....	8
Directors' Declaration .....	9
Independent Auditor's Report .....	10
Statement of Profit or Loss and Other Comprehensive Income .....	12
Statement of Financial Position.....	13
Statement of Changes in Equity.....	14
Statement of Cash Flows .....	15
Notes to the Financial Statements .....	16



**Gage Roads Brewing Co Ltd**  
**Review of Operations**  
**For the Half-Year Ended 31 December 2017**

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## **Commentary on the results for the half-year ended 31 December 2017**

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**Gage Roads Brewing Co Ltd**  
**Review of Operations**  
**For the Half-Year Ended 31 December 2017**

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## **Marketing**

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**Gage Roads Brewing Co Ltd**  
**Review of Operations**  
**For the Half-Year Ended 31 December 2017**

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John Hoedemaker  
**Managing Director**

**Gage Roads Brewing Co Ltd**  
**Directors' Report**  
**For the Half-Year Ended 31 December 2017**

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**Directors' Report**

Your Directors present their report on Gage Roads Brewing Co Limited for the half-year ended 31 December 2017.

**Directors**

The following persons were Directors of the Company during the whole of the financial half-year and up to the date of this report, unless otherwise stated.

Graeme Wood  
Ian Olson (Chairman)  
John Hoedemaker  
Robert Gould

**Managing Director**

John Hoedemaker

**Company Secretary**

Marcel Brandenburg

**Principal Activities**

During the half-year, the principal continuing activities of the Company were the brewing, packaging, marketing and selling of beverages.

No significant change in the nature of these activities occurred during the half-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 half-year ended 31 December 2017 after providing for income tax amounted to \$420,625 (2016: \$1,405,730).

A review of the Company's operations and its financial position, business strategies and prospects is located at page 4 of this report.

**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 8.

This report is made in accordance with a resolution of Directors.



Ian Olson  
**Chairman**

Palmyra  
27 February 2018

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

As lead auditor for the review of Gage Roads Brewing Co. Ltd for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

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



Jarrad Prue  
Director

BDO Audit (WA) Pty Ltd  
Perth, 27 February 2018

**Gage Roads Brewing Co Ltd**  
**Directors' Declaration**  
**For the Half-Year ended 31 December 2017**

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The Directors of the Company declare that:

- (a) The financial statements and notes set out on pages 12 to 21 are in accordance with the Corporations Act 2001 and:
  - (i) comply with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) give a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the half-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.

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



Ian Olson  
**Chairman**

Palmyra  
27 February 2018

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Gage Roads Brewing Co. Ltd

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Gage Roads Brewing Co. Ltd (the Company), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Company's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

#### Directors' responsibility for the Half-Year Financial Report

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

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2017 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



#### Independence

In conducting our review, 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 the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO  
J Prue

Jarrad Prue

Director

Perth, 27 February 2018



**Gage Roads Brewing Co Ltd**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the Half-Year ended 31 December 2017**

	Notes	31 December 2017 \$	31 December 2016 \$
<b>Revenue from continuing operations</b>			
Sales revenue		13,797,779	13,841,761
Interest revenue		1,579	5,801
	2	<u>13,799,358</u>	<u>13,847,562</u>
Other income	2	161,776	1,269,455
Raw materials, consumables & delivery		(5,716,853)	(6,210,260)
Operating expenses		(1,612,591)	(1,644,446)
Employee expense		(3,650,287)	(3,077,608)
Depreciation and amortisation expense		(591,057)	(551,248)
Sales and marketing		(1,098,130)	(501,903)
Administration costs		(240,965)	(523,635)
Occupancy costs		(332,681)	(334,587)
Finance costs		(51,266)	(199,771)
<b>Profit before income tax</b>		<u>667,303</u>	<u>2,073,559</u>
Income tax (expense)		(246,678)	(667,829)
<b>Net Profit attributable to the members of Gage Roads Brewing Co Ltd</b>		<u>420,625</u>	<u>1,405,730</u>
<i>Comprehensive Income</i>			
Items that may be reclassified to profit or loss:			
Cashflow Hedges		(114,220)	-
<i>Total Comprehensive Income for the half year</i>		<u>306,405</u>	<u>1,405,730</u>
<b>Profit per share attributable to the members of Gage Roads Brewing Co Ltd</b>			
Basic and diluted profit per share (cents)		0.05	0.22
Diluted profit per share		0.05	0.22

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

**Gage Roads Brewing Co Ltd**  
**Statement of Financial Position**  
**As at 31 December 2017**

	Notes	31 December 2017 \$	30 June 2017 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,005,563	6,986,173
Trade and other receivables	4	6,645,002	3,753,411
Inventories		2,282,638	1,450,594
<b>Total current assets</b>		<b>12,933,203</b>	<b>12,190,178</b>
<b>Non-current assets</b>			
Property, plant and equipment	6	22,058,348	21,694,863
Intangible assets		36,856	25,730
Deferred tax asset	7	1,627,664	1,874,342
<b>Total non-current assets</b>		<b>23,722,869</b>	<b>23,594,935</b>
<b>Total assets</b>		<b>36,656,072</b>	<b>35,785,114</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	8	9,354,866	6,925,721
Borrowings		-	44,859
<b>Total current liabilities</b>		<b>9,354,866</b>	<b>6,970,580</b>
<b>Non-current liabilities</b>			
Provisions		346,300	311,600
Borrowings	9	-	2,000,000
<b>Total non-current liabilities</b>		<b>346,300</b>	<b>2,311,600</b>
<b>Total liabilities</b>		<b>9,701,166</b>	<b>9,282,180</b>
<b>Net assets</b>		<b>26,954,906</b>	<b>26,502,933</b>
<b>EQUITY</b>			
Contributed equity	10	33,739,569	33,742,064
Hedge Reserve		(375,852)	(261,632)
Share options reserve		1,685,812	1,537,749
Accumulated losses		(8,094,623)	(8,515,248)
<b>Total equity</b>		<b>26,954,906</b>	<b>26,502,933</b>

*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 Half-Year ended 31 December 2017**

	<b>Contributed equity \$</b>	<b>Accumulated Losses \$</b>	<b>Share Option reserve \$</b>	<b>Hedge Reserve</b>	<b>Total equity \$</b>
<b>At 1 July 2016</b>	26,012,998	(10,529,361)	1,254,297	-	16,737,934
<b>Total comprehensive income for the half-year</b>	-	1,405,730	-	-	1,405,730
<b>Transactions with equity holders in their capacity as equity holders:</b>					
Issue of share capital, net of transaction costs	9,291,821	-	-	-	9,291,821
Share buy-back	(1,562,755)	-	-	-	(1,562,755)
Employee and other share options expensed	-	-	119,000	-	119,000
<b>At 31 December 2016</b>	<b>33,742,064</b>	<b>(9,123,631)</b>	<b>1,373,297</b>	<b>-</b>	<b>25,991,730</b>
<b>Comprehensive Income</b>					
Profit for the period	-	608,383	-	-	608,383
Other Comprehensive income	-	-	-	(261,632)	(261,632)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>608,383</b>	<b>-</b>	<b>(261,632)</b>	<b>346,751</b>
<b>Transactions with equity holders in their capacity as equity holders:</b>					
Issue of share capital, net of transaction costs	-	-	-	-	-
Employee share plan shares expensed	-	-	164,452	-	164,452
<b>At 1 July 2017</b>	<b>33,742,064</b>	<b>(8,515,248)</b>	<b>1,537,749</b>	<b>(261,632)</b>	<b>26,502,933</b>
<b>Comprehensive Income</b>					
Profit for the period	-	420,625	-	-	420,625
Other Comprehensive income	-	-	-	(114,220)	(114,220)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>420,625</b>	<b>-</b>	<b>(114,220)</b>	<b>306,405</b>
<b>Transactions with equity holders in their capacity as equity holders:</b>					
Issue of share capital, net of transaction costs	(2,496)	-	-	-	(2,496)
Employee and other share options expensed	-	-	148,063	-	148,063
<b>At 31 December 2017</b>	<b>33,739,569</b>	<b>(8,094,623)</b>	<b>1,685,812</b>	<b>(375,852)</b>	<b>26,954,906</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 Half-Year ended 31 December 2017**

	<b>31 December 2017 \$</b>	31 December 2016 \$
<b>Cash flows from operating activities</b>		
Receipts from customers (inc. of GST, WET and Excise Tax)	<b>20,971,804</b>	20,348,541
Payments to suppliers and employees (inc. of GST, WET and Excise Tax)	<b>(20,922,234)</b>	(20,586,334)
	<b>49,570</b>	(237,793)
Interest received	<b>1,579</b>	5,801
Interest paid	<b>(51,266)</b>	(199,771)
<b>Net cash outflow from operating activities</b>	<b>(117)</b>	(431,763)
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	<b>(849,789)</b>	(195,052)
Payments for intangibles	<b>(20,765)</b>	(8,518)
Proceeds from property, plant and equipment	<b>16</b>	3,610
<b>Net cash outflow from investing activities</b>	<b>(870,538)</b>	(199,960)
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares and other equity securities	-	10,125,646
Share issue transaction costs	<b>(2,496)</b>	(833,825)
Share buy-back	-	(1,562,755)
Proceeds from borrowings	<b>6,096</b>	5,096,158
Repayment of borrowings	<b>(2,050,955)</b>	(12,716,118)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(2,047,355)</b>	109,106
<b>Net decrease in cash and cash equivalents</b>	<b>(2,918,010)</b>	(522,617)
Effect of movement in exchange rates on cash held	<b>(62,600)</b>	-
Cash and cash equivalents at the beginning of the financial half-year	<b>6,986,173</b>	3,559,236
<b>Cash and cash equivalents at the end of the financial half-year</b>	<b>4,005,563</b>	3,036,620

*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**  
**For the Half-Year ended 31 December 2017**

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**Note 1 : Summary of significant accounting policies**

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**(a) Basis of preparation of half-year financial statements**

The general purpose financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Act 2001. The historical cost basis has been used as the basis of preparation.

These half-year financial statements do not include all the notes of the type normally included in the annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial statements. Accordingly, this half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2017 and any public announcements made by Gage Roads Brewing Co Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in this half-year financial report as compared with the most recent annual financial report, unless otherwise stated.

**New and amended standards adopted by the entity**

A number of new or amended standards became applicable for the current reporting period, however, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2017 annual report as a consequence of these amendments.

**Impact of standards issued but not yet applied by the entity**

There were no new standards issued since 30 June 2017 that have been applied by Gage Roads Brewing Co Limited. The 30 June 2017 annual report disclosed that the Company anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2017.

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**Note 2 : Revenue & Other Income**

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	31 December 2017 \$	31 December 2016 \$
<i>Revenue</i>		
Sale of goods	19,862,771	20,151,571
Less: Excise tax & WET collected	(6,064,992)	(6,309,810)
Total sale of goods	13,797,779	13,841,761
Interest	1,579	5,801
	13,799,358	13,847,562
<i>Other income</i>		
Compensation Revenue <sup>1</sup>	-	815,519
ATO Micro-Brewery Excise Refund	-	150,000
Foreign Exchange Profit/ (Loss)	3,524	92,338
Warehousing Services	61,864	66,266
Other	96,388	145,332
	161,776	1,269,455

<sup>1</sup> As announced on 23 December 2016, the company reached an compensation agreement with a major equipment supplier in relation to a commisioning issue dating back to 2014.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**For the Half-Year ended 31 December 2017**

**Note 3 : Expenses**

Profit (Loss) before income tax includes the following specific expenses that are unusual because of their nature, size or incidence:

	31 December 2017 \$	31 December 2016 \$
<i>Employee Expense</i>		
Employee and other share-based payment expense	148,063	119,000
<i>Administration costs</i>		
Consultancy costs incurred in relation to debt raising	-	205,184

**Note 4 : Trade and other receivables**

	31 December 2017 \$	30 June 2017 \$
Trade Receivables	4,164,022	3,369,934
Prepayments	2,480,980	383,477
Trade and other receivables	6,645,002	3,753,411

**Note 5 : Share-based payments**

**(a) Executive and Employee Share Plan**

Shares issued pursuant to this Plan (Incentive Shares) are for services rendered by eligible employees and executives to date and, going forward, for services rendered by existing and any new eligible employees and executives who are appointed in the future. The Company feels that incentive shares are effective consideration to eligible employees and executives for their ongoing commitment and contribution to the Company.

	Date shares granted		Loan Expiry date	Issue price	Balance at start of the period	Granted during the period	Forfeited during the period	Balance at end of the period	Vested at the end of the period
Executives and Senior Management	02-Oct-15	02-Oct-22		0.063	12,000,000	-	-	12,000,000	7,920,000
Employees	02-Oct-15	02-Oct-22		0.063	19,000,000	-	-	19,000,000	12,540,000
Executives and Senior Management	30-Sep-16	29-Sep-23		0.050	110,337,510	-	-	110,337,510	-
Employees	30-Sep-16	29-Sep-23		0.050	17,832,305	-	-	17,832,305	-
Employees	31-Aug-17	29-Sep-23		0.050	-	4,505,005	-	4,505,005	-
<b>Total</b>					159,169,815	4,505,005	-	163,674,820	20,460,000

**Director, Executive and Employee Share Plan shares issued to employees 31 August 2017**

On 31 August 2017, 4,505,005 shares were issued to employees of the Company at an issue price of 5 cents per share and corresponding non-recourse loans totalling \$225,250 were entered into in accordance with the Company's Employee and Executive Share Plan as part of their remuneration and having regard for their past and potential contribution to the Company.

Summary of key loan terms:

- Loan amount: \$0.05 per share
- Interest rate: 0%
- Term of loan: 6 years 1 month (expiring 29 September 2023)
- Tenure condition for 60%: remains eligible employee for 25 months after date of issue
- Tenure condition for further 20%: remains eligible employee for 37 months
- Tenure condition for the remaining 20% : remains eligible employee for 49 months

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**For the Half-Year ended 31 December 2017**

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**Note 5 : Share-based payments (continued)**

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Summary of key loan terms (continued):

- The Earnings Condition will be satisfied for each year tranche if at least 95% of the current internal board approved expected earnings before interest tax depreciation and amortisation (EBITDA) for that year is achieved.
- Share Value Condition: Provided the Tenure Condition has been satisfied but the Earnings Condition has not been satisfied with regards to a particular tranche, if at any time after that year and during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the \$0.025 issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or
- Take Over Provision: Where a takeover bid for the Company's issued shares is declared unconditional and the bidder has acquired a relevant interest in at least 50.1% of the Company's issued shares, all restriction conditions applying to any Shares will be immediately waived, or
- Compromise or Arrangement: Where a court approves under Section 411(4)(b) of the Corporations Act a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other Company, all restriction conditions applying to any Shares will be immediately waived, or
- Death and Permanent Disability: Where an Eligible Employee dies or as a result of a total and permanent disability fails to meet any Tenure Condition with regards to a particular tranche, the loan will remain in place and at any time during the term of the loan the 30-day ordinary share volume weighted average price (VWAP) provides an internal rate of return of at least 32% when compared to the \$0.025 issue price and date at which the shares were issued in accordance with the most recent entitlements issue offer to Shareholders, all restriction conditions with regards to that particular tranche will be immediately waived, or
- Good Leaver Exceptions: The approved Executive & Employee Share Plan provides the Board discretion to waive restriction conditions in certain circumstances.
- Subject to the terms and conditions of the Employee and Executive Share Plan as approved by shareholders on 30 September 2016

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

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

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

- exercise price is \$0.05
- market price of shares at grant date, \$0.05
- expected volatility of the Company's shares is 30%,
- risk-free interest rate used is 1.50%
- time to maturity, 4 years 1 month; and
- a dividend yield of 0%

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

The value of the instruments has been expensed to remuneration on a proportionate basis for each financial year from grant date to vesting date. The proportion of the value of the instrument which was expensed to remuneration and accounted for in the share option reserve was \$21,198 for the half-year ended 31 December 2017.

**(b) Expenses arising from Share-based payments**

Employee and Executive Share Plan shares	<b>148,063</b>
	<b>148,063</b>

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**For the Half-Year ended 31 December 2017**

**Note 6 : Property, plant & equipment**

	Plant and equipment	Office equipment	Motor vehicles	Total
<b>At 30 June 2017</b>				
Cost	28,403,196	419,718	239,787	29,062,701
Accumulated depreciation	(6,818,414)	(339,070)	(210,354)	(7,367,838)
Net book amount	21,584,782	80,648	29,433	21,694,863
<b>Half-year ended 31 December 2017</b>				
Opening net book amount	21,584,782	80,648	29,433	21,694,863
Additions	880,522	65,765	-	946,287
Depreciation charge	(556,736)	(22,217)	(2,465)	(581,418)
Disposals	-	(1,384)	-	(1,384)
Closing net book amount	21,908,568	122,812	26,968	22,058,348
<b>At 31 December 2017</b>				
Cost	29,283,718	485,483	239,787	30,008,988
Accumulated depreciation	(7,375,150)	(361,287)	(212,819)	(7,949,256)
Disposals	-	(1,384)	-	(1,384)
Net book amount	21,908,568	122,812	26,968	22,058,348

**(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.

	31 December 2017 \$	30 June 2017 \$
Plant and equipment	213,240	25,929

**Note 7 : Income tax benefit / Deferred Tax Asset**

	31 December 2017 \$	30 June 2017 \$
<b>(a) Deferred tax asset</b>		
Recognition of deferred tax asset	1,627,664	1,874,342
<b>(b) Recognised tax losses</b>		
Unused tax losses for which a deferred tax asset has been recognised	5,425,548	6,247,812
Deferred tax asset @ 30%	1,627,664	1,874,342

Deferred tax assets and liabilities have been brought to account as at 31 December 2017 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 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.



**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**For the Half-Year ended 31 December 2017**

**Note 7 : Income tax benefit / Deferred Tax Asset (continued)**

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 31 December 2017 by virtue of these divisions of the Income Tax Assessment Act 1997.

**(c) Significant Estimates & Judgements**

Deferred tax assets and liabilities have been brought to account as at 31 December 2017 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 can be claimed.

The Deferred Tax Assets is recognised as being recoverable based on internal sales budgets and profit projections.

**Note 8 : Trade and other payables**

	31 December 2017 \$	30 June 2017 \$
Trade and other payables from operations	9,244,451	6,925,510
Payables for capital equipment	110,415	211
	<b>9,354,866</b>	<b>6,925,721</b>

**Note 9 : Borrowings**

In the year ended 30 June 2017, the Company executed a binding facility agreement with the Commonwealth Bank of Australia ("CBA") to provide a \$5 million revolving credit facility and a \$1 million cash advance facility. The \$5 million revolving credit facility has a term of three years and is an interest only, revolving facility secured against company assets with a fixed and floating charge.

During the period 1 July to 31 December 2017 the company repaid the previously drawn down amount of \$2 million. As at 31 December 2017 the facility remained undrawn. No breaches of covenants in regards to this facility have been recorded during the half year ended 31 December 2017.

**Note 10 : Contributed equity**

	31 December 2017 Shares	30 June 2017 Shares	31 December 2017 \$	30 June 2017 \$
<b>(a) Share Capital</b>				
Ordinary shares Fully paid	863,956,642	859,451,637	33,739,569	33,742,064
	2017 Shares	2017 Shares	2017 \$	2017 \$
<b>(b) Movement in contributed equity:</b>				
<b>1 July (opening balance)</b>	<b>859,451,637</b>	426,332,293	<b>33,742,064</b>	26,012,998
<b>New shares issued</b>				
<i>Issues of shares during the half-year</i>				
Ordinary shares issued (Employee loan Shares)	4,505,005	128,169,815	-	-
Ordinary shares issued (Rights Issue)	-	404,965,834	-	10,124,146
Shares cancelled	-	(100,016,305)	-	(1,562,755)
Capital Raising Costs	-	-	(2,496)	(832,325)
<b>31 December (closing balance)</b>	<b>863,956,642</b>	859,451,637	<b>33,739,569</b>	33,742,064

At 31 December 2017 there were 863,956,642 ordinary shares on issue.

**Gage Roads Brewing Co Ltd**  
**Notes to the Financial Statements**  
**For the Half-Year ended 31 December 2017**

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**Note 11 : Contingencies**

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**Contingent liabilities and assets**

There are no material contingent liabilities or contingent assets of the Company at 31 December 2017.

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**Note 12 : Events occurring after reporting date**

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No matter or circumstance has arisen since 31 December 2017, 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.

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**Note 13 : Fair Value Financial Instruments**

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*Recurring fair value measurements*

The company has forward foreign exchange contracts as part of a hedging strategy against fluctuation in the USD foreign exchange rate. The fair value of these contracts at period end was \$375,852 and was based on level 2

*Fair values of financial instruments not measured at fair value*

The Company does not have any financial instruments that are not measured at fair value.

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**Note 14 : Segment Reporting**

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Management has determined that the company has two operating segments, being proprietary brand brewing and contract brewing. As the processes from production to retailing are 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 operating 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.

There are no discrete corporate activities to the segments that would require reconciliation between segment expenses and total expenses.

	<b>31 December 2017</b>	31 December 2016
	<b>\$</b>	<b>\$</b>
Revenue from external sources	<b>13,797,779</b>	13,841,761
Net profit (loss) before tax	<b>667,303</b>	2,073,559
	<b>31 December 2017</b>	30 June 2017
Reportable segment assets	<b>36,656,072</b>	35,785,114
Reportable segment liabilities	<b>9,701,166</b>	9,282,180

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.