The Lakes Distillery Company plc

Annual report and financial statements

Registered number 07769363

29 December 2019

Contents

Strategic Report

This Strategic Report has been prepared for The Lakes Distillery Company plc for the financial year ended 29th December 2019.

Review of the business

The Company operates a distillery with visitor centre, comprising of a tour facility, shop and bistro, which opened to the public in December 2014.

During the year the Company has released the first of its flagship single malt products under the Whiskymaker's Reserve brand. Released in September 2019 the first two of these series were sold out by March 2020 and have garnered widespread acclaim. These were landmark releases for the company and have been followed by further single malt products in 2020. During the year we have also completed a rebranding of the wider spirits portfolio with the Lakes Gin & Lakes Vodka being released in new packaging in 2019. This was combined with our largest ever print and digital advertising campaigns across the portfolio and we continued to attend a wide range of consumer events to raise our profile.

These activities were rewarded in 2020 when it was announced that Whiskymaker's Reserve No.1 received a Gold Spirit Medal at the 2020 International Wine & Spirit Competition shortly followed by Gold Medals at the World Whisky Awards and the International Spirits Challenge for Whiskymaker's Reserve No.2. The Company and its staff are tremendously proud of the whole spirits portfolio but recognition for quality of the single malt products is a particular point of pride; it represents not just creating these products in 2019, but the building and establishing of the distillery over the last eight years. We have an excellent base from which to release an exciting range of single malt whiskies during 2020 and beyond.

At our home in the Lake District significant investment has been made in the distillery visitor experience with a major renovation of The Whiskymakers' House, including additional tour and tasting rooms (increasing tour capacity) and installation of a state of the art Whiskymaking laboratory. In addition, the majority of work needed to significantly increase single malt production has been completed with groundworks and commissioning of additional washbacks having commenced. Elements of this capex have caused disruption to our onsite activities meaning we have seen a reduction in tour and bistro activity which combined with rebranding our entire spirits portfolio (the fruits of 18 months' work) means that the Company has had a challenging year both on site and in building routes to market. This rebranding exercise has resulted in the write-off of £0.34m *(2018:nil)* of inventory relating to old branded products which is included in the Operating Loss for the year. This decision was taken at the end of the year following the success of the release of the rebranded Lakes Gin & Lakes Vodka and the improved rate of sale that resulted; moving to the rebranded products across the whole portfolio sooner was therefore seen as the right way to progress with building the brand. Consequently, the Company ended the year with an incredibly strong platform with which to accelerate the growth of our brand; an improved visitor experience and a rebranded product portfolio that represents the quality of spirits we are producing.

To fund these successes the company has raised significant investment during the year, a total of £6.9m of equity and £3.85m through a convertible loan note which has helped underpin major capex projects and continue our laydown of single malt whisky.

Impact of Covid-19

Operations

As a result of the national lockdown resulting from Covid-19 the distillery hospitality operations were required to close on 20th March 2020. The government lockdown also impacted large parts of our customer base who were also forced to close (hotels, restaurants, bars, non-essential retail outlets). In addition, our office-based employees were moved to home working and where operations did continue (warehousing and single malt production) it was done so following government guidance. As interactions with our customers and consumers could no longer take place in person the Company was able to quickly switch into offering virtual tastings with great success.

Strategic report *(continued)*

Short Term Focus

The Company acted quickly to utilise the government's Job Retention Scheme for a large portion of its employees in order to protect as many jobs as possible. The vast majority of those placed on furlough have now returned to work. As a result of the rapid shift in consumer dynamics towards online purchasing the Company was able to capitalise on the rebranded product portfolio combined with exciting new product releases meaning our B2C ecommerce platform had outperformed the full year 2019 revenue by the end of June 2020, 6 months ahead of the traditional peak buying period at Christmas. In addition, our B2B multiple-retail customers that have remained open and B2B online retail customers have seen increased rate of sale of rebranded products.

Nevertheless, the Company has faced significant short-term challenges as a result of lockdown, and it acted swiftly to preserve cash balances in the face of significant risks to revenue generation. This included negotiating a twelve-month capital repayment holiday on a term loan and halting all prior approved capex programmes that are now all subject to reapproval. These actions have allowed the company to continue production of single malt whisky; this is a key pillar of future success as the inventory we produce today will be used to scale up sales in the future.

Long Term Prospects

We have been able to re-open our distillery shop on 10th July and Bistro and Tour operations on 31st July. In order to do this, we have followed government guidance on social distancing and PPE resulting in slightly reduced capacity in order to ensure our staff and guests remain safe. However, the demand observed so far is promising. Subject to no sustained lockdown the Directors believe that our hospitality operations will remain a cash generative aspect of our business, even if reduced capacity is required during 2020 and 2021.

With regards to future development of our brand and distribution network the pandemic is not expected to materially alter the strategy of the company; we aim to align our premium spirits portfolio with premium distribution points both in the UK and abroad as we work to build brand equity.

The Directors continue to monitor ongoing developments in the pandemic, along government advice on operating safely for both our staff, guests and customers.

Key performance indicators

The following KPIs are relevant to understanding the business performance for 2019.

	2019	2018
	£'000	£'000
Turnover	**6,094**	6,231
Gross profit	**2,208**	2,531
Distillery Tours (number)	**32,338**	34,204
Bistro Covers (number)	**54,995**	64,989

These KPI's are regularly monitored by management in order to manage the business effectively and drive continued improved performance.

Principal risks and uncertainties

Details of the principal risks and uncertainties are listed below, with further details included in note 19 of the financial statements.

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. There are two main risks for the Company here: receivables from B2B customers and receivables from Founders & Quatrefoil members.

Strategic report *(continued)*

The Company has a diversified B2B customer base (retailers, wholesalers, online retailers, on trade) and there is limited concentration risk against any one customer given the number of customers the Company supplies. In this context the credit risk is based on a customer by customer basis with each account managed against credit limits set using an independent credit rating agency. We have not yet seen a deterioration in customers' capacity to pay following the outbreak of Covid 19. No impairment provision was required in the current year *(2018: nil).*

The receivables from Founders & Quatrefoil members relates to part monies due on payment schedules of their membership. There is no significant history of impairment with this because delivery of the product is contingent on timely payment against their schedule. There is no concentration risk in one debtor as the receivable is due from many members. No impairment provision was required in the current year *(2018: nil).*

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

There are three main risks to liquidity that the Directors monitor regularly.

Operating losses

As a whisky distillery, the Company remains in its infancy with planned losses in this period of the business plan, as the Company builds the brand and its operations. The Directors continue to plan to take the business into profit.

Single malt whisky working capital requirements

Laying down whisky stock involves a wait of at least three years as the whisky matures meaning working capital committed cannot be released for at least that period, and in most cases, significantly longer.

Seasonal working capital requirements

Operating in the spirits industry there is seasonality in the business due to the peak Christmas period. This means that inventory is built ahead of this which then translates to trade receivables before converting to cash.

The Directors monitor these risks daily. These liquidity requirements have been serviced through loans and equity investment to date.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Market risk – Foreign currency risk

The Company's exposure to foreign currency risk is limited. Most export sales are invoiced in Sterling with some Australian Dollar sales being made in 2019 (this amounts to immaterial sales and so fluctuations in exchange rates would not impact the position or performance of the business materially). Due to the timing of export sales throughout the year and the fact that most are invoiced in Sterling there were no material receivables held in foreign currencies and consequently any changes in foreign exchange rates could not have a material impact on trade receivables. The Directors continue to regularly monitor this to identify future exchange rate risks.

Market risk – Interest rate risk

At the balance sheet date, the only variable rate interest-bearing financial instrument is the bank loan as shown in note 15.

Leaving the EU

The Company does not consider that the UK's decision to leave the EU will have a material impact on the business. There are two categories of risks for the Company that could be created once the UK leaves the EU; future revenue risk (i.e. the Company's ability to distribute products in Europe) and supply chain risk (i.e. the Company's ability to source components/assets that are currently purchased from EU member states).

Future Revenue Risk

Strategic report *(continued)*

Defaulting to World Trade Organisation trading arrangements would not be an obstacle to the Company building export sales. The WTO do not currently impose any tariffs on spirits and as such it would, to a certain degree, be the same as the Company trading with Japan or Australia, as it currently does. Although Europe, and in particular the key markets of France & Germany, remain a strategic priority for the business there are several other key markets for Single Malt Whisky that the Company could focus export expansion activity on. These are Taiwan, Japan & USA, amongst many others. However, it should be noted that in the Director's opinion it's unlikely the trading agreement with the EU would be less conducive to trade with the UK than the markets the Company is currently distributing to.

Supply Chain Risks

The main risks for the Company here lie in a devaluation of Sterling and sourcing of casks from mainland Europe. With regards to Sterling this could impact the cost of casks and some other minor components sourced from mainland Europe but there would be associated gains and/or natural hedges available as we build our sales in France, Germany and other European countries. With regards to physically sourcing casks from mainland Europe there is the potential for either delays on imports or imposition of tariffs on casks. Any tariffs on casks would be an industry wide problem and would impact our competitors equally. Delays on imports could potentially slow single malt production but there are numerous mitigations for this, such as sourcing casks from USA. However, this would have no short to medium term impact as all the Company's single malt sales over the short to medium term will come from spirit already produced and maturing in cask.

The Directors continue to monitor these risks as the business grows.

Future developments

The Directors expect subdued economic activity as a result of the impact of Lockdown on the UK economy. The impact on the Company has been discussed above. Although forecasting the impact of Covid-19 beyond the date of this report is difficult, there are a number of positive developments that lead the directors to believe that the general level of activity will increase in 2021, particularly considering the launch of our single malt whisky, the success of the rebranded portfolio and shift in consumer behaviour towards online purchasing. In addition, we continue to invest in our sales and marketing team in order to capitalise on our growing brand presence and continued demand for premium spirits.

Going Concern

The financial statements have been prepared on a going concern basis notwithstanding that the company has reported a loss before tax of £3,467,000 (2018: £1,751,000) and net cash outflow from operating activities of £4,762,000 (2018: £1,490,000) which the directors believe to be appropriate for the following reasons.

The company had cash at bank of £3,701,000 as at 29 December 2019 and funds its operations and working capital through a combination of bank and other loans, working capital facilities, convertible loans and equity raises. A 12-month capital repayment holiday with respect to the bank loan was agreed with the lenders in June 2020. The Company also has an undrawn overdraft facility of £25,000. On 25 September 2020 the company had £1,665,000 cash at bank and working capital facilities of £2,370,000 of which £1,034,000 had been drawn, leaving cash and available facilities of £3,026,000.

The directors consider that as a consequence of the Covid-19 pandemic and resultant temporary closure of the distillery, the current economic outlook presents significant challenges in terms of sales volume, margin generation and the availability of further finance. Whilst the directors have instituted measures to preserve cash and secure additional finance, there is uncertainty over future trading results and cashflows.

Strategic report *(continued)*

The directors have prepared a cashflow forecast for the 15-month period to December 2021 including the impact of Covid-19. Specifically, they have considered a base case scenario which models their plans for achieving sales growth through 2021 and also the receipt of additional debt or equity funding to fund the planned increase in single malt whisky production. They have also considered a severe but plausible downside scenario which assumes that the planned fundraising does not transpire, along with 2 further months of closure of the distillery in September and October 2020 as a result of potential further lockdowns and a gradual return to normal trade thereafter. Mitigating actions available to the directors were also considered, such as reducing discretionary capital expenditure and overheads and halting the increase in single malt whisky production.

The forecasts indicate that the company would require further funding, either from its existing lenders or from other sources. No agreement is in place for the provision of this additional funding at the date of approving the financial statements and while the directors are confident that such additional funding could be obtained, they acknowledge that there can be no certainty of this and that the absence of agreed further funding represents a material uncertainty. In addition, the working capital facilities require that the covenants for each financial year are agreed between the company and the lender annually in advance of the relevant financial year. At the date of approval of these financial statements, the covenants for the year ending 31 December 2021 have not been agreed with the lender. Based on discussion with the lender, the Directors are confident that the covenants will be agreed and that the Company will be able to operate within these even in the downside case, however, in the absence of such an agreement there can be no certainty that the company will be able to operate within the agreed covenants and this represents a material uncertainty.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, the uncertainties around the availability of future funding and agreed covenants relating to the working capital facilities represent material uncertainties which relate to events and conditions that may cast significant doubt upon the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

By order of the board

D Robinson

David Robinson
Chief Financial Officer

1st Floor Grandstand Garage,
Kenton Road,
Gosforth,
United Kingdom
NE3 4NB

28 September 2020

Directors' Report

The Directors present their report and audited financial statements for the year ended 29th December 2019.

Principal activity

The Company operates a whisky, gin and vodka distillery and related tourist centre in the Lake District.

Corporate Governance

During 2018 the Board established Audit and Remuneration Committees, each with specific terms of reference. The work of each is summarised below.

Audit Committee

The Audit Committee was formally constituted in 2018 and has convened as required during 2019 with the following key responsibilities:

- To monitor the integrity of the financial statements of the Company.
- Review the Company's internal financial controls and internal control and risk management processes.
- Review the adequacy and security of the Company's arrangements for whistleblowing.
- To review the adequacy of financial resource available to the Company and the need for internal audit.
- Review the independence and effectiveness of the Company's external auditor and make recommendations to the Board in relation to the auditor's appointment, re-appointment and removal.
- Consider the external audit plan and the findings of the audit.

The non-executive Directors who served as members of the Audit Committee in the year were: Richard Hutton (Chairman), Alan Rutherford, Paul Neep and Tim Farazmand. Richard Hutton is considered to have recent and relevant financial experience. The Committee normally invites the Company's Chief Financial Officer and the external auditor to attend its meetings.

The Committee held two meetings during the year at which it considered the external auditor KPMG's proposed audit plan for the 2019 financial year, accounting judgments relating to convertible loan instruments and judgements regarding the adoption of IFRS16, Lease Accounting, in 2019. The Company's internal controls and risk management processes were reviewed.

Subsequent to the year end the committee met to consider the draft financial statement for the 52 weeks ended 29 December 2019 and the external audit thereof. Particular scrutiny was given to the basis for making the going concern assumption, the impact of Covid-19 and associated reporting and to significant transactions, judgments and estimates. The external Auditor's Report on audit findings was considered and the committee held a closed session with the external auditor in the absence of management.

The committee has considered the involvement of KPMG in providing taxation advice to ensure that such non-audit services do not compromise the auditor's independence or objectivity. The committee concluded that KPMG remains effective and independent and therefore the reappointment of KPMG LLP will be proposed at the forthcoming AGM.

Remuneration Committee

The Remuneration Committee was formally constituted during 2018 and has convened throughout 2019 when required with the following key responsibilities:

- Agree with the Board a framework and policy for the remuneration and benefits of the Chairman, the Executive Directors and other senior executives of the Company.
- Review the ongoing appropriateness and relevance of the remuneration policy and consider the views of the Company's principal shareholders.
- Approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve total annual payments under such schemes.
- Review the design of all share incentive plans for approval by the Board and shareholders and for each year determine whether awards will be made.

Directors' report *(continued)*

Remuneration Committee *(continued)*

The non-executive Directors appointed to the committee in the year were Tim Farazmand (Chairman), Richard Hutton and Paul Neep. The Committee normally invites the Company's Chairman and CEO to attend its meetings.

During the year and subsequent to the year end the Committee met and recommended various awards under the performance related pay schemes and share incentive plans.

Results & dividends

The loss for the year was £3,467,000 *(2018: £1,751,000)*. The Directors do not recommend the payment of a dividend *(2018: £nil)*.

Directors

The Directors who held office during the year were as follows:

Paul Currie	
Nigel Mills CBE	
Dr Alan Rutherford OBE	
David Robinson	
Tim Farazmand	
Richard Hutton	
Paul Neep	
Craig Wilkinson	(appointed 13th December 2019)
Andrew Davison OBE	(Company Secretary)

Certain Directors benefited from qualifying third-party indemnity provisions in place during the financial year and at the date of this report.

Political contributions

The Company made no political donations or incurred any political expenditure during the year *(2018: £nil)*.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1 and note 22 of the financial statements.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

D Robinson

David Robinson
Chief Financial Officer

1st Floor Grandstand Garage,
Kenton Road,
Gosforth,
United Kingdom
NE3 4NB

28 September 2020

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LAKES DISTILLERY COMPANY PLC

Opinion

We have audited the financial statements of The Lakes Distillery Company plc ("the company") for the year ended 29 December 2019 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 29 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that in the forecasts prepared by the directors, the company will require further funding, and no agreement is in place for the provision of this additional funding. In addition, the financial covenants for the year ended 31 December 2021 relating to the working capital facilities, which are set annually in advance, have not yet been agreed. In the absence of an agreement, there can be no certainty that the company will be able to operate within the agreed covenants. These events and conditions, along with the other matters explained in note 1, constitute material uncertainties that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LAKES DISTILLERY COMPANY PLC (continued)

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

T. Stonehouse

Tara Stonehouse (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
28 September 2020

Income Statement
for year ended 29 December 2019

	Note	**2019** **£'000**	2018 £'000
Revenue	*2*	**6,094**	6,231
Cost of sales		**(3,886)**	(3,700)
Gross profit		**2,208**	2,531
Other operating income	*3*	**122**	128
Distribution expenses		**(135)**	(175)
Administrative expenses		**(5,137)**	(4,166)
Operating loss		**(2,942)**	(1,682)
Analysed as:			
Operating loss before exceptional items		**(2,942)**	(1,195)
Exceptional Items	*8*	**-**	(487)
Operating loss (after exceptional item)		**(2,942)**	(1,682)
Financial expenses	*7*	**(525)**	(69)
Loss before tax		**(3,467)**	(1,751)
Taxation	*9*	**-**	-
Loss for the year		**(3,467)**	(1,751)

Statement of Other Comprehensive Income
for year ended 29 December 2019

	2019 **£'000**	2018 £'000
Loss for the year	**(3,467)**	(1,751)
Other comprehensive income	**-**	-
Total comprehensive expense for the year	**(3,467)**	(1,751)

Balance Sheet
at 29 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	*10*	**8,764**	7,255
Intangible assets	*11*	**139**	119
Trade and other receivables	*13*	**25**	72
		8,928	7,446
Current assets			
Inventories	*12*	**4,702**	4,029
Trade and other receivables	*13*	**1,105**	1,243
Cash and cash equivalents	*14*	**3,701**	142
		9,508	5,414
Total assets		**18,436**	12,860
Current liabilities			
Interest-bearing loans and borrowings	*15*	**(209)**	(889)
Trade and other payables	*16*	**(1,883)**	(3,416)
Provisions		**(54)**	(56)
		(2,146)	(4,361)
Non-current liabilities			
Interest-bearing loans and borrowings	*15*	**(5,805)**	(1,246)
Deferred government grants	*16*	**(34)**	(39)
Deferred Income – Memberships	*16*	**(877)**	(1,079)
		(6,716)	(2,364)
Total liabilities		**(8,862)**	(6,725)
Net assets		**9,574**	6,135
Equity			
Share capital	*18*	**564**	466
Share premium		**6,725**	-
Share based payment reserve		**121**	38
Retained earnings		**2,164**	5,631
Total equity		**9,574**	6,135

These financial statements were approved by the board of Directors on 28 September 2020 and were signed on its behalf by:

D Robinson

David Robinson
Chief Financial Officer

Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2018	466	-	38	5,631	6,135
Total comprehensive expense for the year					
Loss for the year	-	-	-	(3,467)	(3,467)
Total comprehensive expense for the year	-	-	-	(3,467)	(3,467)
Contributions by and distributions to owners					
Issue of shares	98	6,725	-	-	6,823
Equity-settled share-based payment transactions	-	-	83	-	83
Total contributions by and distributions to owners	98	6,725	83	-	6,906
Balance at 29 December 2019	**564**	**6,725**	**121**	**2,164**	**9,574**

Statement of Changes in Equity *(Continued)*

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Retained Earnings £'000	Total equity £'000
Balance at 1 January 2018	444	9,302	22	(3,972)	5,796
Total comprehensive expense for the year					
Loss for the year	-	-	-	(1,751)	(1,751)
Total comprehensive expense for the year	-	-	-	(1,751)	(1,751)
Contributions by and distributions to owners					
Issue of shares	23	2,076	-	-	2,099
Cancelled shares	(1)	(24)	-	-	(25)
Equity-settled share-based payment transactions	-	-	16	-	16
Capital reduction	-	(11,354)	-	11,354	-
Total contributions by and distributions to owners	22	(9,302)	16	11,354	2,090
Balance at 29 December 2018	**466**	**-**	**38**	**5,631**	**6,135**

Cash Flow Statement

for year ended 29 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Loss for the year		**(3,467)**	(1,751)
Adjustments for:			
Depreciation and amortisation	*10,11*	**530**	401
Financial expense		**525**	69
Deferred government grant		**(122)**	(128)
Equity settled share-based payment expenses		**83**	16
Loss / (profit) on disposal of equipment		**7**	(5)
Tax		**-**	-
		(2,444)	(1,398)
Decrease / (increase) in trade and other receivables		**185**	(192)
Increase in inventories		**(673)**	(1,300)
(Decrease)/ increase in trade and other payables		**(1,830)**	1,400
		(2,318)	(92)
Tax received		**-**	-
Net cash from operating activities		**(4,762)**	(1,490)
Cash flows from investing activities			
Acquisition of property, plant and equipment	*10*	**(1,514)**	(921)
Interest Received		**3**	-
Proceeds from the receipt of government grants		**-**	21
Proceeds from the disposal of assets		**13**	16
Acquisition of other intangible assets	*11*	**(56)**	(48)
Net cash from investing activities		**(1,554)**	(932)
Cash flows from financing activities			
Proceeds from the issue of share capital	*18*	**6,450**	2,099
Cancellation of shares		**-**	(25)
Proceeds from new loan	*15*	**3,850**	350
Interest paid	*7*	**(234)**	(69)
Proceeds from Asset Financing		**135**	-
Repayment of borrowings		**(155)**	(68)
Repayment of lease liabilities		**(171)**	(50)
Net cash from financing activities		**9,875**	2,237
Net increase/(decrease) in cash and cash equivalents		**3,559**	(185)
Cash and cash equivalents at 1 January 2018		**142**	327
Cash and cash equivalents at 29 December	*14*	**3,701**	142

Notes

(forming part of the financial statements)

1 Accounting policies

The Lakes Distillery Company plc (the "Company") is a public Company incorporated, domiciled and registered in England in the UK. The registered number is 07769363 and the registered address is 1st Floor Grandstand Garage, Kenton Road, Gosforth, NE3 4NB.

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. Each accounting period is equal to 52 weeks.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The financial statements have been prepared on a going concern basis notwithstanding that the company has reported a loss before tax of £3,467,000 (2018: £1,751,000) and net cash outflow from operating activities of £4,762,000 (2018: £1,490,000) which the directors believe to be appropriate for the following reasons.

The company had cash at bank of £3,701,000 as at 29 December 2019 and funds its operations and working capital through a combination of bank and other loans, working capital facilities, convertible loans and equity raises. A 12-month capital repayment holiday with respect to the bank loan was agreed with the lenders in June 2020. The Company also has an undrawn overdraft facility of £25,000. On 25 September 2020 the company had £1,665,000 cash at bank and working capital facilities of £2,370,000 of which £1,034,000 had been drawn, leaving cash and available facilities of £3,026,000.

The directors consider that as a consequence of the Covid-19 pandemic and resultant temporary closure of the distillery, the current economic outlook presents significant challenges in terms of sales volume, margin generation and the availability of further finance. Whilst the directors have instituted measures to preserve cash and secure additional finance, there is uncertainty over future trading results and cashflows.

The directors have prepared a cashflow forecast for the 15-month period to December 2021 including the impact of Covid-19. Specifically, they have considered a base case scenario which models their plans for achieving sales growth through 2021 and also the receipt of additional debt or equity funding to fund the planned increase in single malt whisky production. They have also considered a severe but plausible downside scenario which assumes that the planned fundraising does not transpire, along with 2 further months of closure of the distillery in September and October 2020 as a result of potential further lockdowns and a gradual return to normal trade thereafter. Mitigating actions available to the directors were also considered, such as reducing discretionary capital expenditure and overheads and halting the increase in single malt whisky production.

The forecasts indicate that the company would require further funding, either from its existing lenders or from other sources. No agreement is in place for the provision of this additional funding at the date of approving the financial statements and while the directors are confident that such additional funding could be obtained, they acknowledge that there can be no certainty of this and that the absence of agreed further funding represents a material uncertainty. In addition, the working capital facilities require that the covenants for each financial year are agreed between the company and the lender annually in advance of the relevant financial year. At the date of approval of these financial statements, the convenants for the year ending 31 December 2021 have not been agreed with the lender. Based on discussion with the lender, the Directors are confident that the covenants will be agreed and that the Company will be able to operate within these even in the downside case, however, in the absence of such an agreement there can be no certainty that the company will be able to operate within the agreed covenants and this represents a material uncertainty.

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern (continued)

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, the uncertainties around the availability of future funding and agreed covenants relating to the working capital facilities represent material uncertainties which relate to events and conditions that may cast significant doubt upon the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency of sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

1.4 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Notes *(continued)*

1 Accounting policies *(continued)*

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Buildings & Leasehold improvements 10-50 years
- Plant and equipment 4-20 years
- Fixtures and fittings 5-10 years
- Motor vehicles 4 years
- Casks 20 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.7 Intangible assets and goodwill

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software 5 years
- Website 4 years
- Patents and trademarks 10 years

Notes *(continued)*

1 Accounting policies *(continued)*

1.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured and maturing inventories, cost includes an appropriate share of overheads based on normal operating capacity.

1.9 Impairment excluding inventories, and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.10 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Share-based payment transactions

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Employee benefits (continued)

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, considering the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as a personnel expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

1.11 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.12 Revenue

The Company accounts for revenue in line with *IFRS 15 Revenue from Contracts with Customers*, with revenue being measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it has transferred control over a product or a service to a customer.

The following is a description of the principal activities of the Company from which it generates revenue.

Sale of goods

The Company generates revenue through the sale of goods direct to consumers (in its shop or via its website) or to businesses (via sales representatives). In both cases the Company transfers control of the goods and fulfils its performance obligations when the goods are delivered to the customer. Consumers pay in full at the point of sale, whereas trade sales are generally made on credit. No adjustments are made to revenue from the amount stipulated in the contracts.

Memberships

To date the Company offers two different types of memberships which are Founders and Quatrefoil; these are non-cancellable contracts with customers which entitles them to the following:

The Founders membership entitles the member to the delivery of one 70cl bottle and two 5cl bottles of Lakes Single Malt Whisky (spirit in years 1 and 2) each year for a period of ten years. The liquid for these bottles is taken from the Founders reserves, some of the very first casks ever laid down by the distillery. The last of these memberships was sold in 2018.

The Quatrefoil membership entitles the member to the delivery of one 70cl bottle of Lakes Single Malt Whisky each year for a period of four years

The Company considers that the performance obligation in relation to this contract is the delivery of the bottled liquid to the customer, and further that each bottle is a separately identifiable product as they are distilled and bottled individually over the course of the ten years. Therefore, each bottle has its own performance obligation. In addition, the customer does not gain control of the goods until delivery, as they are not involved in the distilling or bottling process.

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Revenue (continued)

The transaction price is allocated evenly across the number of bottles, as each bottle is considered sufficiently unique from any others that the Company will sell, and there are no similar points of reference on which to base an allocation in the marketplace.

Revenue in relation to these memberships is therefore recognised on the annual delivery of each bottle to each member.

Tourism and hospitality

The Company generates revenue through operating tours and hospitality at its visitor centre and restaurant. For both, the Company transfers control of the goods and fulfils its performance obligations as it provides the services, with the customers paying in full at point of sale.

1.13 Expenses

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.14 Government grants

Government grants received by the Company are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to the grant and that the grants will be received. The grants are recognised in the profit or loss account on a systematic basis over the periods in which the Company recognises as expenses to related costs for which the grants are intended to compensate.

1.15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.16 Leases (policy applicable from 31 December 2018)

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

Policy applicable prior to 01 January 2019

Where a significant portion of the risks and rewards of ownership are retained by the lessor, leases are classified as operating leases. Payments made as a lessee under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the relevant lease.

Notes *(continued)*

1 Accounting policies *(continued)*

1.16 Leases (policy applicable from 31 December 2018) (continued)

Policy applicable subsequent to 01 January 2019

The company assesses whether contracts entered into constitute a lease. A contract is, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company used the definition of a lease in IFRS 16.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method.

Impact of transition to IFRS 16

On transition to IFRS 16 the company recognized additional right-of-use assets and lease liabilities, the impact of which is shown below.

	2019 £'000
Right-of-use assets	512
Lease liabilities	(512)

In calculating the present value of the lease payments in order to determine the lease liability the Company has used its incremental borrowing rate at the lease commencement date, where the interest rate implicit in the lease is not readily determinable. The company has therefore used its incremental borrowing rate of 10% on all leases.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes *(continued)*

1 Accounting policies *(continued)*

1.16 Leases (policy applicable from 31 December 2018) (continued)

Operating lease payments (policy applicable before 31 December 2018)

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Finance lease payments (policy applicable before 31 December 2018)

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

1.17 Adopted IFRSs not yet applied

The following standards and amendments have been issued but are not yet effective for the Company. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020)
- Amendments to IFRS 3: Definition of a Business (effective date to be confirmed)
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020)

Their adoption is not expected to have a material effect on the accounts.

2 Revenue

	2019	2018
	£'000	£'000
Business to consumer sales	**2,526**	2,660
Business to business sales	**3,311**	3,364
Membership income	**257**	207
Total revenue	**6,094**	6,231

Sales by location

	2019	2018
	£'000	£'000
Asia	**45**	47
Australia	**97**	123
Europe	**159**	57
ROW	**10**	-
United Kingdom	**5,783**	6,004
Total revenue	**6,094**	6,231

Notes *(continued)*

3 Other operating income

	2019	2018
	£'000	£'000
Government grants	**122**	128
	122	128

The Company have received grants for a number of projects covering the initial restoration and build of the distillery, plant & equipment, warehousing and systems development and are being released over a period of between five and twenty years.

4 Expenses and auditor's remuneration

Auditor's remuneration:

	2019	2018
	£'000	£'000
Audit of these financial statements	**28**	28
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit related assurance services	**-**	16
Taxation compliance services	**6**	5
Other tax advisory services	**3**	8
Other assurance services	**3**	-
Corporate finance activity	**-**	163

Operating loss for the period is stated after charging/(crediting):

	2019	2018
	£'000	£'000
Depreciation	**494**	368
Amortisation	**36**	33
Loss / (profit) on disposal of fixed assets	**7**	(5)
Operating lease costs	**-**	97

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2019	2018
Staff numbers		
Staff	**68**	62
Directors	**6**	6
	74	68

	2019	2018
	£'000	£'000
Staff costs		
Wages and salaries	**2,306**	2,038
Share based payments (see note 17)	**83**	16
Social security costs	**202**	183
Contributions to defined contribution plans	**98**	69
	2,689	2,306

6 Directors' remuneration

	2019	2018
	£'000	£'000
Directors' remuneration for qualifying services	**406**	342
Contributions to defined contribution pension schemes	**54**	40
Share based payments	**25**	3
	485	385

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £99,000 *(2018: £110,000)*, and Company pension contributions of £37,600 *(2018: £26,000)* were made to a money purchase scheme on his behalf.

There are no Directors' advances, credits or guarantees in place.

Notes *(continued)*

7 Finance expense

	2019	2018
	£'000	£'000
Interest on finance leases	**11**	7
Interest on bank borrowings	**465**	62
Interest on right of use leases	**49**	-
Total finance expense	**525**	69

8 Exceptional Item

During 2018 the Company completed preparatory diligence and associated workstreams necessary to prepare the Company for admission of its Ordinary Shares to trading on AIM. Due to market uncertainty at the time this project was put on hold. The 2018 results include exceptional costs of £487,000 for professional fees incurred in this respect (Legal, Accounting, Corporate Finance, PR advisors) and other associated non-recurring costs. Seeking admission to AIM remains a possibility for the Company.

9 Taxation

Recognised in the income statement

	2019	2018
	£'000	£'000
Current tax expense		
Current year	-	-
Adjustments for prior years	-	-
Current tax expense	-	-
Deferred tax expense		
Origination and reversal of temporary differences	-	-
Adjustments for prior years	-	-
Deferred tax expense	-	-
Total tax expense	-	-

No tax has been recognised directly in other comprehensive income for the periods presented.

Notes *(continued)*

9 Taxation *(continued)*

Tax recognised directly in equity

	2019 £'000	2018 £'000
Current tax recognised directly in equity	-	-
Deferred tax recognised directly in equity	-	-
Total tax recognised directly in equity	-	-

Reconciliation of effective tax rate

	2019 £'000	2018 £'000
Loss for the year	(3,467)	(1,751)
Total tax expense	-	-
Loss excluding taxation	(3,467)	(1,751)
Tax using the UK corporation tax rate of 19 % *(2018: 19%)*	(659)	(333)
Impact of non-deductible expenses	170	119
Income not taxable	-	(2)
Reduction in tax rate on deferred tax balances	-	-
Current year losses for which no deferred tax asset was recognised	438	215
Adjustments in respect of previous periods	51	-
Other differences	-	1
Total tax expense	-	-

Factors that may affect future current and total tax charges

At the period end, there was unrecognised deferred tax assets of £1,181,028 *(2018: £747,104)* in respect of unutilised tax losses. These have not been recognised as their recovery cannot be determined with reasonable certainty.

A reduction in the UK Corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset and liability as at 31 December 2019 have been calculated based on this rate.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will increase the company's future tax charge and result in an increase in the deferred tax asset and liability accordingly.

Notes *(continued)*

9 Taxation *(continued)*

Recognised deferred tax assets and liabilities

Deferred tax assets and (liabilities) are attributable to the following:

Movement in recognised deferred tax during the period

	31 December 2018 £'000	**Recognised in income £'000**	**29 December 2019 £'000**
Accelerated capital allowances	**(491)**	**-**	**(491)**
Short term differences, Tax losses and other deductions	**491**	**-**	**491**
	-	**-**	**-**

	1 January 2018 £'000	Recognised in income £'000	30 December 2018 £'000
Accelerated capital allowances	(477)	(14)	(491)
Tax losses carried forward and other deductions	477	14	491
	-	-	-

Notes *(continued)*

10 Property, plant and equipment

	Computer and office equipment £'000	Motor vehicles £'000	Leasehold developments £'000	Freehold land and buildings £'000	Plant and machinery £'000	Casks £'000	Assets under Construction £'000	Total £'000
Cost								
Balance at 1 January 2018	123	143	4,046	587	1,889	595	-	7,383
Additions	20	46	137	9	219	622	-	1,053
Transfers from inventory	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(15)	(2)	-	(17)
Balance at 30 December 2018	143	189	4,183	596	2,093	1,215	-	8,419
Balance at 31 December 2018	143	189	4,183	596	2,093	1,215	-	8,419
Additions	44	25	123	11	288	393	630	1,514
Recognition of right of use assets	-	50	462	-	-	-	-	512
Disposals	-	(22)	(1)	-	-	(15)		(38)
Balance at 29 December 2019	**187**	**242**	**4,767**	**607**	**2,381**	**1,593**	**630**	**10,407**
Depreciation								
Balance at 1 January 2018	61	13	375	29	299	21	-	798
Charge for the year	25	45	139	12	108	39	-	368
Disposals	-	-	-	-	(2)	-	-	(2)
Balance at 30 December 2018	86	58	514	41	405	60	-	1,164
Balance at 31 December 2018	86	58	514	41	405	60	-	1,164
Charge for the year	27	55	214	11	121	66	-	494
Disposals	-	(13)	-	-	-	(2)	-	(15)
Balance at 29 December 2019	**113**	**100**	**728**	**52**	**526**	**124**	**-**	**1,643**
Net book value								
At 1 January 2018	62	130	3,671	558	1,590	574	-	6,585
At 30 December 2018	57	131	3,669	555	1,688	1,155	-	7,255
At 29 December 2019	**74**	**142**	**4,039**	**555**	**1,855**	**1,469**	**630**	**8,764**

Notes *(continued)*

10 Property, plant and equipment *(continued)*

Leased plant and machinery

At year end the net carrying amount of leased plant and machinery was £226,234 *(2018: £109,000)*

At year end the net carrying amount of motor vehicles held under finance leases was £135,589 *(2018: £120,000).*

At year end the net carrying amount of leasehold developments held under finance leases was £402,323 *(2018: £Nil).*

11 Intangible assets

	Patents and trademarks £'000	Website £'000	Software £'000	Total £'000
Cost				
Balance at 1 January 2018	38	105	34	177
Additions	25	-	23	48
Disposals	(3)	-	-	(3)
Balance at 30 December 2018	**60**	**105**	**57**	**222**
Balance at 31 December 2018	60	105	57	222
Additions	24	22	10	56
Disposals	-	(41)	-	(41)
Balance at 29 December 2019	**84**	**86**	**67**	**237**
Amortisation				
Balance at 1 January 2018	7	58	6	71
Amortisation for the year	5	18	10	33
On disposals	(1)	-	-	(1)
Balance at 30 December 2018	**11**	**76**	**16**	**103**
Balance at 31 December 2018	11	76	16	103
Amortisation for the year	7	17	12	36
On disposals	-	(41)	-	(41)
Balance at 29 December 2019	**18**	**52**	**28**	**98**
Net Book Value				
At 1 January 2018	31	47	28	106
At 30 December 2018	49	29	41	119
At 29 December 2019	**66**	**34**	**39**	**139**

Notes (*continued*)

12 Inventories

	2019 £'000	2018 £'000
Maturing inventories	**3,215**	2,162
Raw materials and packaging	**468**	838
Finished goods	**1,019**	1,029
	4,702	4,029

Amounts recognised as cost of sales in the year amounted to £3,039,369 *(2018: £2,866,867)*. The write-down of inventories to net realisable value amounted to £334,777 *(2018: £nil)* which resulted from transitioning into new branded products.

13 Trade and other receivables

	2019 £'000	2018 £'000
Due within one year		
Trade receivables	**526**	829
Membership debtors	**95**	150
Other trade receivables	**130**	64
Prepayments	**354**	200
	1,105	1,243
Due after more than one year		
Membership debtors	**25**	72

Membership debtors due after more than one year relate to the Founders & Quatrefoil memberships which are committed but not due.

14 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash and cash equivalents per balance sheet	**3,701**	142
Cash and cash equivalents per cash flow statements	**3,701**	142

Notes (*continued*)

15 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 19.

	2019 £'000	2018 £'000
Non-current liabilities		
Secured bank loans	223	-
Finance lease liabilities	-	171
Other secured loan	1,125	1,075
Convertible loan	3,862	-
Lease Liabilities	595	-
	5,805	1,246
Current liabilities		
Current portion of secured bank loans	55	333
Current portion of finance lease liabilities	-	52
Other secured loan	-	150
Convertible loan	-	354
Lease Liabilities	154	-
	209	889

As at 29th December 2019 the Company had issued £3,850,000 of convertible loan instruments. Interest is paid at 8% quarterly and it accrues at a rate of 12% PIK per annum from drawdown to conversion or repayment. The loan can convert on Exit (including sale of company or admission to LSE/AIM) or repaid early or run to maturity and be repaid. The term is 3 years with an option to extend to 5 years. If converted on exit the loan would convert at the prevailing share price and as such a variable number of the Company's equity instruments would be issued at that point.
Per IAS 32 an instrument cannot be classified as an equity instrument if the number of shares which will be delivered upon conversion is variable. The directors have considered this in light of the terms of the instruments in issue as at the balance sheet date and have determined that they should be classified as financial liabilities.

During the year, the £350,000 convertible instrument in issue at the prior balance sheet date converted to equity at a price of £1.50 per share.

	Currency	Nominal interest rate	Year of maturity	Nominal value 2019 £'000	Carrying amount 2019 £'000	Nominal value 2018 £'000	Carrying amount 2018 £'000
Secured bank loan	GBP	LIBOR +2.5%	2025	278	278	333	333
Other secured loan	GBP	7.5%	2020	200	200	150	150
Other secured loan	GBP	7.5%	2021	925	925	1,075	1,075
Secured Convertible loan	GBP	8-12%	2022	3,862	3,862	354	354
Finance leases	GBP	Various	Range	-	-	223	223
Right of use leases	GBP	Various	Range	454	454	-	-
				5,719	5,719	2,135	2,135

Notes *(continued)*

15 Other interest-bearing loans and borrowings *(continued)*

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2019 £'000	**Interest 2019 £'000**	**Principal 2019 £'000**
Less than one year	-	-	-
Between one and five years	-	-	-
More than five years	-	-	-
	-	-	-

	Minimum lease payments 2018 £'000	Interest 2018 £'000	Principal 2018 £'000
Less than one year	62	10	52
Between one and five years	211	40	171
More than five years	-	-	-
	273	50	223

Changes in liabilities from financing activities	Loans and borrowings £'000	Finance lease liabilities £'000	Total £'000
Balance at 1 January 2018	1,626	145	1,771
Changes from financing cash flows			
Proceeds from loans and borrowings	350	-	350
Repayment of borrowings	(68)	-	(68)
Payment of finance lease liabilities	-	(50)	(50)
Interest paid	(58)	(11)	(69)
Total changes from financing cash flows	224	(61)	163
Other changes			
New finance leases	-	132	132
Interest expense	62	7	69
Total other changes	62	139	201
Balance at 30 December 2018	**1,912**	**223**	**2,135**

Notes *(continued)*

15 Other interest-bearing loans and borrowings *(continued)*

Changes in liabilities from financing activities	Loans and borrowings £'000	Lease liabilities £'000	Total £'000
Balance at 31 December 2018	1,912	223	2,135
Recognition of IFRS 16 lease liabilities	-	512	512
Changes from financing cash flows			
Proceeds from loans and borrowings	4,575	-	4,575
Repayment of borrowings	(155)	-	(155)
Payment of lease liabilities	-	(108)	(108)
Interest paid	(321)	-	(321)
Total changes from financing cash flows	4,099	(108)	3,991
Other changes			
Converted to equity	(1,222)	-	(1,222)
New leases	-	73	73
Interest expense	476	49	525
Total other changes	(746)	122	(624)
Balance at 29 December 2019	**5,265**	**749**	**6,014**

16 Trade and other payables

	2019 £'000	2018 £'000
Current		
Trade payables	**468**	1,573
Other payables due to related parties	**9**	4
Non-trade payables and accrued expenses	**1,163**	1,523
Deferred income – Memberships	**231**	186
Deferred government grants	**12**	130
	1,883	3,416

	2019 £'000	2018 £'000
Non-current liabilities		
Deferred income – Memberships	**877**	1,079
Deferred government grants	**34**	39
	911	1,118

Notes *(continued)*

16 Trade and other payables *(continued)*

Analysis of contract liabilities with customers

	2019	2018
	£'000	£'000
Opening balance	**1,265**	1,307
New memberships purchased in the year	**100**	165
Revenue recognised in the year	**(257)**	(207)
Closing balance	**1,108**	1,265

Contract liabilities with customers arise on Founder & Quatrefoil Memberships. Members pay in advance for these memberships, either in full or by direct debit instalments. Under the terms of the membership contract the Company is obliged to deliver whisky on an annual basis. When this performance obligation is fulfilled each year, the deferred income is released, and the revenue recognised.

17 Employee benefits

Defined contribution plans

The Company operates a defined contribution pension plan.

The total expense relating to these plans in the current year was £98,400 *(2018: £69,128).*

Share-based payments

During 2017 the Company established a share option scheme for key management personnel. The scheme is based on service and Company performance criteria with options granted during 2017 vesting over a five-year period. During 2019 additional options were granted to key management personnel that vest over a three-year period. During the year none of the options granted were exercised.

The terms and conditions of the grants are as follows:

Grant date / employees entitled	Method of settlement accounting	Number of Instruments	Vesting conditions	Contractual life of options
Equity settled award to 12 employees granted by parent on 13 September 2017, during this year these shares were subdivided from 10p to 2p resulting in an increase in the number of options from 173,400 to 867,000.	Equity	867,000 (2017 173,400)	Board approved EBITDA targets to be met with employees remaining in employment or leaving under "good leaver" Conditions	13 September 2027
Equity Settled award to 10 employees granted by parent on 21st June 2019	Equity	966,696	Board approved EBITDA targets to be met with employees remaining in employment or leaving under "good leaver" Conditions	12 June 2022

Notes *(continued)*

17 Employee benefits *(continued)*

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2019 £	**Number of options 2019**	Weighted average exercise price 2018 £	Number of options 2018
Outstanding at the beginning of the year	**1.20**	**739,500**	6	156,400
Forfeited during the year	**(1.20)**	**(42,500)**	(6)	(8,500)
Exercised during the year	**-**	**-**	-	-
Granted during the year	**1.50**	**966,696**	-	-
Lapsed during the year	**-**	**-**	-	-
Subdivision during the year	**-**	**-**	1.20	591,600
Outstanding at the end of the year	**1.37**	**1,663,696**	1.20	739,500
Exercisable at the end of the year	**1.37**	**1,663,696**	1.20	739,500

During 2019 the company established an additional share option scheme for key management personnel. The scheme is based on service and company performance criteria with options granted during 2019 vesting over a 3 year period depending on service and the company meeting the specified criteria. During the year none of the options granted were exercised for either scheme.

On 27 September 2018, the Company effected a subdivision of its entire issued share capital. Following the subdivision and cancellation of shares (as discussed in note 18), the number of shares in issue in the capital of the Company increased from 4,658,881 ordinary shares of 10p each to 23,258,655 ordinary shares of 2p each. Consequently, the exercise price for each of the Options has decreased from £6.00 per Option to £1.20 per Option.

The weighted average share price at the date of exercise of share options exercised during the year was £1.37 *(2018: £1.20)*.

The options outstanding at the year end have an exercise price of £1.20 or £1.50 and a weighted average contractual life of 9 years.

The fair value of services received in return for share options granted were measured by reference to the fair value of share options granted. Measurement inputs and assumptions were as set out below. The impact of the sub-division of shares on the 2017 award is reflected in 2018:

	2019	2018
Fair value at grant date	**£0.33**	£0.33
Weighted average share price	**£1.37**	£1.20
Exercise price	**£1.20-£1.50**	£1.20
Expected volatility (expressed as 30% using the black Scholes model	**30%**	30%
Option life (expressed as weighted average life using the black Scholes model)	**3-5**	5
Expected dividends	**0%**	0%
Risk-free interest rate (based on national government bonds)	**0.5%**	0.5%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, a non-market performance condition. Such conditions are not considered in the grant date fair value measurement of the services received.

Notes *(continued)*

17 Employee benefits *(continued)*

The total expenses recognised for the year directly in the share-based payment reserve is as follows:

	2019 £'000	2018 £'000
Equity settled share-based payment expense	**83**	16

18 Capital and reserves

Share capital

	2019 £'000	2018 £'000
At beginning of year	**466**	444
Issued for cash	**98**	23
Cancelled	**-**	(1)
At 31 December – fully paid	**564**	466

	2019 Number	2018 Number
On issue at start of year	**23,258,655**	4,434,245
Issued	**4,957,976**	224,896
Cancelled	**-**	(35,750)
Subdivided	**-**	18,635,264
On issue at end of year	**28,216,631**	23,258,655

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During the year the Company issued 4,957,976 £0.02 ordinary shares for a consideration of £6,823,378 satisfied in cash *(2018*: 224,896 £0.10 ordinary shares for a consideration of £2,248,930 satisfied in cash). This includes the conversion of £350,000 (*2018: £nil)* of convertible loan notes, at a share price of £1.50, for which the cash was received during 2018.

On 27 September 2018, the whole of the issued share capital of the Company at the time was sub-divided from ordinary shares of £0.10 each in the capital of the Company into ordinary shares of £0.02 each in the capital of the Company.

Notes *(continued)*

19 Financial instruments

19 (a) Fair values of financial instruments

Fair values

All financial assets and liabilities, both current and non-current, are measured at amortised cost. There are no assets or liabilities designated at fair value through profit or loss or held for trading.

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2019 £'000	**Fair value 2019 £'000**	Carrying amount 2018 £'000	Fair value 2018 £'000
Financial assets at amortised cost				
Cash and cash equivalents	3,701	3,701	142	142
Trade and other receivables	776	776	1,115	1,115
Total financial assets	4,477	4,477	1,257	1,257

	Carrying amount 2019 £'000	**Fair value 2019 £'000**	Carrying amount 2018 £'000	Fair value 2018 £'000
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings	6,014	6,014	2,135	2,135
Trade and other payables	796	796	2,264	2,264
Total financial liabilities measures at amortised cost	6,810	6,810	4,399	4,399

19 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. There are two main risks for the Company here: receivables from trade customers and receivables from Founders & Quatrefoil members (both included in trade receivables below and in note 13).

The Company has a diversified trade customer base (retailers, wholesalers, online retailers, on trade) and there is limited concentration risk against any one customer given the number of customers the Company supplies. In this context credit risk is based on a customer by customer basis with each account managed against credit limits set using an independent credit rating agency. No impairment provision was required in the current year *(2018: nil,).*

The receivables from Founders & Quatrefoil members relates to part monies due on payment schedules of their membership. There is no significant history of impairment with this because delivery of the product is contingent on timely payment against their schedule. There is no concentration risk in one debtor as the receivable is due from many members.

Notes *(continued)*

19 Financial instruments *(continued)*

19 (b) Credit risk (continued)

The maximum exposure to credit risk at the balance sheet date by class of financial instrument was;

	2019	2018
	£'000	£'000
Trade receivables	**526**	829
Memberships	**120**	222
	646	1,051

Credit quality of financial assets and impairment losses

The ageing of trade and membership receivables at the balance sheet date was:

	Gross 2019 £'000	**Impairment 2019 £'000**	Gross 2018 £'000	Impairment 2018 £'000
Not past due	**631**	-	615	-
Past due, 0-30 days	**6**	-	342	-
Past due, 31-120 days	**9**	-	94	-
More than 120 days	-	-	-	-
	646	-	1,051	-

19 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

There are three main risks to liquidity that the Directors monitor regularly.

Historic losses

As a whisky distillery the Company remains in its infancy with planned losses in this period of the business plan, as the Company builds the brand and its operations. The Directors continue to plan to take the business into profit.

Single malt whisky working capital requirements

Laying down whisky stock involves a wait of at least 3 years as the whisky matures meaning working capital committed cannot be released for at least that period and in most cases significantly longer.

Seasonal working capital requirements

Operating in the spirits industry there is seasonality in the business due to the peak Christmas period. This means that inventory is built ahead of this which then translates to trade receivables before converting to cash.

The Directors monitor these risks daily. These liquidity requirements have been serviced through loans and equity investment to date.

Notes *(continued)*

19 Financial instruments *(continued)*

Seasonal working capital requirements (continued)

The following are the contractual maturities of financial labilities, including estimated interest payments and excluding the effect of netting agreements:

2019

	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000
Non-derivative financial liabilities						
Secured bank loans	278	305	61	61	183	-
Lease liabilities	749	1,480	213	221	282	764
Other secured loan	1,125	1,265	312	953	-	-
Secured convertible loan	3,862	6,502	184	401	5,917	-
Trade and other payables	1,884	1,884	1,884	-	-	-
	7,898	**11,436**	**2,654**	**1,636**	**6,382**	**764**

2018

	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2years £'000	2 to <5years £'000	5years and over £'000
Non-derivative financial liabilities						
Secured bank loans	333	342	342	-	-	-
Finance lease liabilities	223	273	62	61	150	-
Other secured loan	1,225	1,363	242	1,121	-	-
Unsecured loan	354	354	354	-	-	-
Trade and other payables	3,416	3,416	3,416	-	-	-
	5,551	5,748	4,416	1,182	150	-

19 (d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Market risk – Foreign currency risk

The Company's exposure to foreign currency risk is limited. Casks are sourced from mainland Europe, and to a lesser extent the US, giving rise to Euro and US Dollar exposure. Most export sales are invoiced in Sterling, with some Australian Dollar sales being made as at year end (this amounts to immaterial sales and so fluctuations in exchange rates would not impact the position or performance of the business materially).

During the year purchases of £738,180 were made in Euros *(2018: £408,216)* and at the year-end £210,542 was outstanding in Euros. A significant change in exchange rates (e.g. +/- 10%) would not be enough to have a material impact on the balance sheet at year end.

The Directors continue to monitor these risks as the business grows.

Notes *(continued)*

19 Financial instruments *(continued)*

Market risk – Interest rate risk

At the balance sheet date, the only variable rate interest-bearing financial instruments is the bank loan as shown in note 15. The Directors consider a reasonably possible change in LIBOR to be 5% which would increase the interest expense by £17,000 which is not considered to be a material impact on the financial statements.

20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2019 **£'000**	2018 £'000
Less than one year	-	109
Between one and five years	-	381
More than five years	-	352
	-	842

21 Leases

21 Leases as a lessee (IFRS 16)

Right-of-use assets
Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 10):

	Land and Buildings £000	**Motor Vehicles £000**	**Fixtures & Fittings £000**	**Total £000**
Balance at 31 December 2019	-	-	-	-
Additions to right-of-use assets	462	50	-	512
Depreciation charge for the year	(60)	(8)	-	(68)
Balance at 29 December 2019	402	42	-	444

Amounts to be recognised in profit or loss

Previously, these leases were classified as operating leases under IAS 17.

	2019 **£000**
Interest on lease liabilities	49
Expenses relating to short term and low value leases	2
Depreciation charge for the year	68
Balance at 29 December 2019	**119**

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 31 December 2018. The weighted-average rate applied is 10%.

Notes *(continued)*

21 Leases *(continued)*

21 Leases as a lessee (IFRS 16) (continued)

Amounts Recognised in statement of cash flows

	2019 **£000**
Total cash outflow for leases	108

22 Related parties

During the year the following transactions took place between the Company and related parties:

Transactions **2019** **£'000**	Transactions 2018 £'000	Balances at 31 December **2019** **£'000**	Balances at 31 December 2018 £'000	Details	Relationship
Goods and Services Received					
26	25	**9**	4	Trout Hotels (Cumbria) Limited	Common Directorships NJ Mills and PPF Upton
-	11	**-**	-	Grasp (UK) Limited	Common Directorships BH Jobling
-	7	**-**	-	MB Martin & Partners Limited	Common Directorships M Martin
40	-	**-**	-	Comhar Capital Limited	Common Directorship Craig Wilkinson
Goods and Services Sold					
10	24	**5**	6	Trout Hotels (Cumbria) Limited	Common Directorships NJ Mills and PPF Upton
Convertible Loan Received					
-	100	**-**	-	E & G Mills	Immediate family of current Director of the Company

23 Subsequent events

Subsequent to the balance sheet date the board approved and allotted 153,164 ordinary shares at £0.02p for a consideration of £229,746.

Subsequent to the balance sheet date the global outbreak of Coronavirus forced the closure of hospitality operations at the distillery and also the closure of parts of our customer base. Details on this are discussed in the strategic report. No revisions to accounting estimates have been deemed necessary as a result of this and there are no significant non adjusting post balance sheet events arising from this issue.

Subsequent to the balance sheet date the Company entered into an Asset Back Lending Agreement with Secure Trust Bank. This facility offers maximum lending of up to £3.5m across inventory and receivables assets and replaced the previous inventory facility offered by Natwest.

Notes *(continued)*

24 Accounting estimates and judgements

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The Directors have considered the areas of the financial statements which require estimates and judgement. They consider that there are no significant estimates or judgements which have a significant impact on the financial statements or are likely to cause a material adjustment in subsequent financial statements. However, they have identified the following areas which requires a degree of estimation:

Recoverability of trade debtors

An assessment as to the ability of the Company to recover trade debtors is made at each financial year end. A provision is made for any amounts that are not considered to be recoverable. Due to the nature of this provision an estimate is made of recoverability.

Valuation of stock

An assessment as to the ability of the Company to recover the value of stock for above its original cost is made at each financial year end. A provision is made for any amounts that are not considered to be recoverable either due to the net realisable value being less than cost for that stock or of the stock becoming obsolete or expired. Due to the nature of this provision an estimate is made as to the amounts that will be recoverable which involves judgement based on knowledge of the stock held and the market, considering the current order book.