The Lakes Distillery Company plc

Annual report and financial statements

Registered number 07769363

30 June 2022

Contents

Strategic Report

This Strategic Report has been prepared for The Lakes Distillery Company plc for the financial period ended 30 June 2022. We are presenting Group and Company accounts but as in 2021 it should be noted that there have been no transactions in our Irish subsidiary and so the results presented here reflect the trading of The Lakes Distillery Company plc.

Review of the business

The Company distils and distributes a range of spirits, including a flagship single malt whisky, and operates a visitor centre, comprising of a tour facility, shop and bistro, which opened to the public in December 2014.

During the year the Company has continued to accelerate its release of single malt products under the Whiskymaker's Reserve series, and this has been supplemented by the continuation of the successful Whiskymaker's Edition range. This release continues to gather pace and the Directors expect a significant increase in single malt volumes over the coming years.

We are extremely proud that this release programme has included The Lakes Single Malt Whiskymaker's Reserve No.4 which was awarded the world's best single malt whisky at The World Whisky Awards in February 2022. This was the culmination of 10 years of hard work, investment, support and the craftmanship of our whisky-making team. We would like to take this opportunity to thank our team, investors, and all stakeholders for delivering a truly phenomenal achievement, at such an early point in our journey.

Beyond our single malt we have invested in the quality of our wider portfolio and our Pink Grapefruit Gin received the Gold Outstanding award at the 2022 International Wine & Spirit Competition (IWSC). The IWSC promote the quality and excellence of the world's best drinks. After being rigorously assessed by an expert panel of spirit buyers, producers, distillers, distributors, and influencers, our distinctively zesty Pink Grapefruit Gin scored a remarkable 98 out of 100.

We are also pleased to report winning a Visit England Gold Award for the fourth year in succession. This is the highest accolade in English tourism and there are no other visitor experiences in The Lake District National Park that currently hold this award.

In January 2022 we embarked on what was our most ambitious equity fund raise to date. By the end of September 2022, we had raised a total of £4,850,000. The primary purpose of this funding round was to deliver an increase in production levels beyond our historic capacity of 130,000 litres of alcohol. This increase will give us future sales potential beyond our original business plan and will provide sufficient scale for us to export our products around the world.

This funding round took place alongside a refinancing process that has allowed us to replace a secured convertible loan that was initially due for repayment in June 2022. With agreement of the Company and the lenders, this maturity date was delayed until 18 July 2022 to allow for the legal completion process to take place and on 18 July 2022 this liability was settled and refinanced with a new 5-year term £5,750,000 loan. This new loan has no convertible elements and is on improved interest rates versus the previous loan. In addition, the lender has also provided £2,600,000 of further funding that has allowed us to purchase our distillery land and buildings. Previously this was held on a long-term lease but owning the home of our brand is a significant step forward for the business and helps to secure our long-term future. Further details on these events are included in Note 23.

Strategic Report *(continued)*

Key performance indicators

The following KPIs are relevant to understanding the business performance for the 12 month period to June 2022.

	12 months to June 2022	18 months to June 2021	12 months to June 2021 *(unaudited)*
	£000	£000	£000
Gross Revenue	**7,720**	7,530	6,225
Net Revenue	**5,904**	5,337	4,427
Gross profit	**3,700**	2,985	2,229
Distillery Tours (number)	**21,114**	17,433	12,365
Bistro Covers (number)	**39,475**	34,062	25,879

From the KPIs above we can see a significant increase in both gross and net revenue. With net revenue being our primary revenue measure, we are pleased to report 33% (unaudited) growth year on year. This reflects in part the easing of Covid related restrictions but also an expansion of our single malt offering and the growth of our export sales.

These sales figures have been delivered alongside an improvement in our gross profit margins from 50% to 63%.

At our visitor centre we have seen an increase in footfall year-on-year which reflects the improved situation with regards to the pandemic. Although footfall has not yet returned to pre-pandemic levels, due to the changing dynamics of both domestic and international tourism, we saw a marked increase year-on-year.

In addition to the KPIs noted above, the Board continues to monitor operating and pre-tax losses in the business. Although we remain in a loss-making phase of our business cycle we have made progress during the year. Operating losses have reduced from £4,283,000 (18 month period) to £1,972,000 (12 month period). This reflects the gains discussed above in terms of increasing revenue and gross margin generated.

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

Strategic Report *(continued)*

Key performance indicators *(continued)*

Accounting treatment of the Future Fund and its impact on Loss after Tax

It should be noted that the loss after tax for the year was £4,877,000, down from £7,296,000 in the previous period. The 2022 loss includes finance charges of £2,905,000 *(18 months to 2021: £3,013,000)*. Within this balance there is a £1,772,000 *(18 months to 2021: £1,010,000)* charge relating to an accrued redemption premium on an unsecured convertible loan (the Future Fund). This balance was being accrued to reflect the possibility of the payment of redemption premium if that loan ran to maturity in December 2023. Following the completion of the equity financing round discussed above this loan has now been converted from debt to equity on 2 November 2022.

As a result of this conversion from debt to equity this redemption premium will now not fall due. However, both 2022 and 2021 results include the accrual of this premium. The impact of this premium across both periods is set out below, showing the figures reported as per IFRS and how the Income Statement would have been reported had the accrual not been present.

	12 months to June 2022	18 months to June 2021
	£000	£000
Actual IFRS reported Loss after Tax	**4,877**	7,296
Less: Accrued redemption premium on the Future Fund	**(1,772)**	(1,010)
Adjusted Loss after Tax	**3,105**	6,286
Actual IFRS reported Net Assets	**3,940**	4,658
Cumulative impact of Accrued redemption premium on the Future Fund	**2,782**	1,010
Adjusted Net Assets	**6,722**	5,668

For illustrative purposes, the table shows the significant reduction in losses if the accrued redemption premium were removed, given that it has now been converted following the year-end. This accrued finance charge will be reversed in the 2023 financial statements. The 2023 balance sheet will show a further improvement in net assets as a result of the principal balance of the loan and its accrued interest to 27 October 2022 moving from debt to equity leaving the company's balance sheet in a stronger position.

Principal risks and uncertainties

Details of the principal risks and uncertainties are listed below, with further details included in note 18 of the financial statements.

Financial risk management

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

The Group 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 Group 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 or as a result the impact of the current inflationary dynamics in the economy. No impairment provision is in place as no older items exist to require a safeguard against *(2021.: £15,000)*.

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 *(2021: nil)*.

Strategic report *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group 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 Group remains in its infancy with planned losses in this period of the business plan, as the Group 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 Group's income or the value of its holdings of financial instruments.

Market risk – Foreign currency risk

The Group's exposure to foreign currency risk is limited. 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 instruments are the bank loans and working capital facility, as shown in note 14.

Future developments

The Directors expect some element of uncertainty as the UK and global economies continue to exit the pandemic and adjust to a high inflation economy. Although forecasting the impact of inflation or 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 beyond 2022, particularly as we are able to release increasing amounts of single malt whisky and the continued success of the rebranded portfolio. 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.

Covid-19 Global Pandemic

The Directors remain vigilant over the possible risks to the business as a result of the pandemic. However, since our last annual report the outlook has changed dramatically. The success of the vaccination program in the UK and the opening of international travel has allowed us to return the company to a path of sales growth. Nevertheless, a possible return to some level of social restrictions remain in both the UK and abroad and we continue to monitor this situation carefully and the safety of our staff and visitors is our top priority.

Strategic report *(continued)*

Going Concern

The financial statements have been prepared on a going concern basis notwithstanding that the Group has reported a loss before tax of £4,877,000 and a net cash outflow from operating activities of £4,137,000. The directors consider this to be appropriate for the following reasons.

The Group had cash at bank of £1,295,000 as at 30 June 2022 and funds its operations and working capital through a combination of bank and other loans, working capital facilities, convertible loans and equity raises. As at the date of this report the Group had cash and available working capital facilities of £4,403,000 (unaudited). The Group's secured convertible loan instrument, which at the year-end had a balance of £5,721,000, was due for maturity on 18 July 2022. This loan, along with a secured bank loan with a balance of £195,000, was settled on 18 July 2022 and was replaced with a 5-year term loan of £5,750,000.

This refinancing took place alongside an equity fund raise which raised a total of £4,850,000 between January 2022 and September 2022. This was deemed to be a qualifying financing event under the terms of the outstanding unsecured convertible loan (known as the Future Fund). This resulted in the conversion of this loan from debt into ordinary share capital as at 2 November 2022 and so the original liability for this as a debt instrument has now been extinguished. There has therefore been a considerable restructuring of the Group's balance sheet since the last annual report that has resulted in the company having no term loan debt repayments within the forecast period.

The directors have prepared a cashflow forecast covering at least 18 months from the date of approval of these financial statements. Specifically, they have considered a base case scenario which models plans for achieving sales growth through this period and a planned increase in single malt whisky production. They have also considered a severe but plausible downside scenario which assumes a slowdown in sales and profit growth across all business units in both the UK and abroad. This downside has also included a severe but plausible increase in the Bank of England base rate which will increase cost of debt servicing. Mitigating actions, including reducing or halting the increase in single malt whisky production, a switch in cask sourcing strategy towards cheaper alternatives, and the slowing of marketing investment plans, were also considered. In both the base case and downside scenarios the Company is able to meet is financial obligations and liabilities as they fall due and remains within its lending covenants.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared them on a going concern basis.

By order of the board

D Robinson

David Robinson
Chief Financial Officer

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

24 November 2022

Directors' Report

The Directors present their report and audited financial statements for the period ended 30 June 2022.

Principal activity

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

Corporate Governance

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

Audit Committee

The Audit Committee supports the governance of the Company by focussing on the following key responsibilities:

- Monitoring the integrity of the financial statements of the Group.
- Reviewing the Group's internal financial controls and internal control and risk management processes.
- Reviewing the adequacy and security of the Group's arrangements for whistleblowing.
- Monitoring the adequacy of financial resource available to the Group and the need for internal audit.
- Reviewing the independence and effectiveness of the Group's external auditor and make recommendations to the Board in relation to the auditor's appointment, re-appointment and removal.
- Considering the external audit plan and the findings of that audit.

The non-executive Directors who served as members of the Audit Committee in the period were: Richard Hutton (Chairman), Paul Neep, Tim Farazmand & Craig Wilkinson. Richard Hutton is considered to have recent and relevant financial experience. The Committee normally invites the Group'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 2022 financial period, accounting judgements and valuation techniques relating to convertible loan instruments. The clarity of disclosure of financial performance was also considered, and the Group'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 12 months ended 30 June 2022 and the external audit thereof. Particular scrutiny was given to the basis for making the going concern assumption and accounting for convertible loan instruments. 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, which convened several times during the period, supports the governance of the Group by focussing on the below 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 Group.
- Review the ongoing appropriateness and relevance of the remuneration policy and consider the views of the Group's principal shareholders.
- Approve the design of, and determine targets for, any performance related pay schemes operated by the Group 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 Remuneration Committee comprise of Paul Neep (Chair), Tim Farazmand, Richard Hutton and Craig Wilkinson with Andrew Davidson as secretary to the Committee. The Committee normally invites the CEO to attend its meetings.

The key elements of Executive pay are:

- A base salary which reflects the individual's role and takes account of their experience and contribution and affordability for the Group.
- An annual bonus plan which rewards performance against near-term goals consistent with the strategy of the business.
- Performance share plans. Their aim is to reward long term value creation, facilitate share ownership and provide a retention tool. The primary targets are net revenue, EBITDA and the production of new make spirit as these are regarded as important drivers of shareholder value. Dur the year and subsequent to the year end the Committee recommended various awards in line with meeting long-term objectives and to aid retention.
- Pension and Benefits. To facilitate retirement planning and remain competitive in the market place.
- The Remuneration Committee believes that a significant proportion of Executive pay should be performance related.

Results & dividends

The loss for the period was £4,877,000 *(2021: £7,296,000).* The Directors do not recommend the payment of a dividend *(2021: £nil).*

Directors

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

Nigel Mills CBE
David Robinson
Tim Farazmand
Richard Hutton
Paul Neep
Craig Wilkinson
Kirsten Taylor (Appointed 27 January 2022)
Andrew Davison OBE (Group 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 Group made no political donations or incurred any political expenditure during the year *(2021: £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 Group'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 Group'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.

Directors' report *(continued)*

Auditor
Pursuant to Section 491 of the Companies Act 2006, a resolution for KPMG LLP's re-appointment is to be put to the AGM for approval.

By order of the board

D Robinson

David Robinson
Chief Financial Officer

1st Floor Grandstand Garage,
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24 November 2022

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 group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 group and parent company and of the group's profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, rèlevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the group and parent 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 group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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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 30 June 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Balance Sheets, The Group and Company Statement of Changes in Equity, the Cash Flow Statements, 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 Group's and of the parent Company's affairs as at 30 June 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 Group 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.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

Independent auditor's report to the members of The Lakes Distillery Company Plc *(continued)*

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board and audit committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that management may be in a position to make inappropriate accounting entries.
- the risk that sales revenue is overstated through recording revenues in the wrong period.

We did not identify any additional fraud risks.

We performed procedures including:

- For a sample of revenue transactions around the year end, vouching to supporting documentation to corroborate whether those items were recorded in the correct accounting period.
- Identifying journal entries to test based on high risk criteria and comparing the identified entries to supporting documentation.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, and employment law, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Independent auditor's report to the members of The Lakes Distillery Company Plc *(continued)*

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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 9, 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 Group and parent 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 Group or the parent 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.

Independent auditor's report to the members of The Lakes Distillery Company Plc *(continued)*

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
24 November 2022

Consolidated Income Statement
for the 12 month period 30 June 2022

	Note	2022 £000	*18 months ended* 2021 £000
Gross Revenue	*2*	**7,720**	7,530
Duty		**(1,816)**	(2,193)
Net Revenue		**5,904**	5,337
Cost of sales		**(2,204)**	(2,352)
Gross profit		**3,700**	2,985
Other operating income	*3*	**23**	43
Distribution expenses		**(190)**	(278)
Administrative expenses		**(5,505)**	(7,033)
Operating loss		**(1,972)**	(4,283)
Financial expenses	*7*	**(2,905)**	(3,013)
Loss before tax		**(4,877)**	(7,296)
Taxation	*8*	**-**	-
Loss for the year		**(4,877)**	(7,296)

Consolidated Statement of Other Comprehensive Income
for the 12 month period 30 June 2022

	2022 £000	*18 months Ended* 2021 £000
Loss for the year	**(4,877)**	(7,296)
Other comprehensive income	**-**	-
Total comprehensive expense for the year	**(4,877)**	(7,296)

Balance Sheets

	Note	Group 30 June 2022 £000	Company 30 June 2022 £000	Group 30 June 2021 £000	Company 30 June 2021 £000
Non-current assets					
Property, plant and equipment	9	**11,087**	**11,087**	10,860	10,860
Intangible assets	10	**112**	**112**	119	119
Investment in Subsidiaries	22	**-**	**-**	-	-
		11,199	**11,199**	10,979	10,979
Current assets					
Inventories	11	**9,135**	**9,135**	6,615	6,615
Trade and other receivables	12	**884**	**884**	959	959
Cash and cash equivalents	13	**1,295**	**1,295**	2,330	2,330
		11,314	**11,314**	9,904	9,904
Total assets		**22,513**	**22,513**	20,883	20,883
Current liabilities					
Interest-bearing loans and borrowings	14	**(6,140)**	**(6,140)**	(5,153)	(5,153)
Trade and other payables	15	**(2,099)**	**(2,099)**	(3,152)	(3,152)
Derivative Financial Liability	18	**(109)**	**(109)**	(724)	(724)
		(8,348)	**(8,348)**	(9,029)	(9,029)
Non-current liabilities					
Interest-bearing loans and borrowings	14	**(9,486)**	**(9,486)**	(6,260)	(6,260)
Deferred government grants	15	**(149)**	**(149)**	(171)	(171)
Deferred Income – Memberships	15	**(590)**	**(590)**	(765)	(765)
		(10,225)	**(10,225)**	(7,196)	(7,196)
Total liabilities		**(18,573)**	**(18,573)**	(16,225)	(16,225)
Net assets		**3,940**	**3,940**	4,658	4,658
Equity					
Share capital	17	**651**	**651**	594	594
Share premium		**12,952**	**12,952**	9,023	9,023
Share based payment reserve		**346**	**346**	173	173
Retained earnings		**(10,009)**	**(10,009)**	(5,132)	(5,132)
Total equity		**3,940**	**3,940**	4,658	4,658

These financial statements were approved by the board of Directors on 24 November 2022 and were signed on its behalf by:

David Robinson
Chief Financial Officer

Group & Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Share based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 30 June 2021	594	9,023	173	(5,132)	4,658
Total comprehensive expense for the year					
Loss for the year	-	-	-	(4,877)	(4,877)
Total comprehensive expense for the year	-	-	-	(4,877)	(4,877)
Contributions by and distributions to owners					
Issue of shares	57	3,929	-	-	3,986
Equity-settled share-based payment transactions	-	-	173	-	173
Total contributions by and distributions to owners	57	3,929	173	-	4,159
Balance at 30 June 2022	**651**	**12,952**	**346**	**(10,009)**	**3,940**

Group & Company 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 29 December 2019	564	6,725	121	2,164	9,574
Total comprehensive expense for the year					
Loss for the year	-	-	-	(7,296)	(7,296)
Total comprehensive expense for the year	-	-	-	(7,296)	(7,296)
Contributions by and distributions to owners					
Issue of shares	30	2,298	-	-	2,328
Equity-settled share-based payment transactions	-	-	52	-	52
Total contributions by and distributions to owners	30	2,298	52	-	2,380
Balance at 30 June 2021	**594**	**9,023**	**173**	**(5,132)**	**4,658**

Cash Flow Statements
for the 12-month period ended 30 June 2022

	Note	Group 2022 £000	Company 2022 £000	*Group 18 months ended* 2021 £000	*Company 18 months ended* 2021 £000
Cash flows from operating activities					
Loss for the year		**(4,877)**	**(4,877)**	(7,296)	(7,296)
Adjustments for:					
Depreciation and amortisation	*9,10*	**818**	**818**	1,049	1,049
Financial expense	*7*	**2,905**	**2,905**	3,013	3,013
Deferred government grant		**(23)**	**(23)**	(43)	(43)
Equity settled share-based payment expenses	*16*	**173**	**173**	52	52
Loss on disposal of equipment		-	-	13	13
Tax		-	-	-	-
		(1,004)	**(1,004)**	(3,212)	(3,212)
Decrease in trade and other receivables		**80**	**80**	220	220
Increase in inventories		**(2,520)**	**(2,520)**	(1,917)	(1,917)
(Decrease)/Increase in trade and other payables		**(694)**	**(694)**	583	583
		(3,134)	**(3,134)**	(1,114)	(1,114)
Net cash outflow from operating activities		**(4,138)**	**(4,138)**	(4,326)	(4,326)
Cash flows from investing activities					
Acquisition of property, plant and equipment	*9*	**(1,046)**	**(1,046)**	(2,709)	(2,709)
Interest Received		-	-	8	8
Proceeds from the receipt of government grants		-	-	169	169
Proceeds from the disposal of assets		-	-	42	42
Acquisition of other intangible assets	*10*	**(25)**	**(25)**	(35)	(35)
Net cash outflow from investing activities		**(1,071)**	**(1,071)**	(2,525)	(2,525)
Cash flows from financing activities					
Proceeds from the issue of share capital	*17*	**3,986**	**3,986**	2,328	2,328
Proceeds from new loans	*14*	-	-	4,600	4,600
Interest paid		**(468)**	**(468)**	(461)	(461)
Proceeds from asset backed financing		**981**	**981**	407	407
Repayment of borrowings		**(56)**	**(56)**	(1,125)	(1,125)
Repayment of lease liabilities		**(269)**	**(269)**	(269)	(269)
Net cash inflow from financing activities		**4,174**	**4,174**	5,480	5,480
Net (decrease) in cash and cash equivalents		**(1,035)**	**(1,035)**	(1,371)	(1,371)
Cash and cash equivalents at the start of period		**2,330**	**2,330**	3,701	3,701
Cash and cash equivalents at the end of period	*13*	**1,295**	**1,295**	2,330	2,330

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 Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards ("IFRSs").

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 21.

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to include the Company only profit and loss account in the financial statements. Unless otherwise stated all notes to the financial statements relate the Group and Company.

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 Group has reported a loss before tax of £4,877,000 and a net cash outflow from operating activities of £4,137,000. The directors consider this to be appropriate for the following reasons.

The Group had cash at bank of £1,295,000 as at 30 June 2022 and funds its operations and working capital through a combination of bank and other loans, working capital facilities, convertible loans and equity raises. As at the date of this report the Group had cash and available working capital facilities of £4,403,000 (unaudited). The Group's secured convertible loan instrument, which at the year-end had a balance of £5,721,000, was due for maturity on 18 July 2022. This loan, along with a secured bank loan with a balance of £195,000, was settled on 18 July 2022 and was replaced with a 5-year term loan of £5,750,000.

This refinancing took place alongside an equity fund raise which raised a total of £4,850,000 between January 2022 and September 2022. This was deemed to be a qualifying financing event under the terms of the outstanding unsecured convertible loan (known as the Future Fund). This resulted in the conversion of this loan from debt into ordinary share capital as at 2 November 2022 and so the original liability for this as a debt instrument has now been extinguished. There has therefore been a considerable restructuring of the Group's balance sheet since the last annual report that has resulted in the company having no term loan debt repayments within the forecast period.

The directors have prepared a cashflow forecast covering at least 18 months from the date of approval of these financial statements. Specifically, they have considered a base case scenario which models plans for achieving sales growth through this period and a planned increase in single malt whisky production. They have also considered a severe but plausible downside scenario which assumes a slowdown in sales and profit growth across all business units in both the UK and abroad. This downside has also included a severe but plausible increase in the Bank of England base rate which will increase cost of debt servicing. Mitigating actions, including reducing or halting the increase in single malt whisky production, a switch in cask sourcing strategy towards cheaper alternatives, and the slowing of marketing investment plans, were also considered. In both the base case and downside scenarios the Company is able to meet is financial obligations and liabilities as they fall due and remains within its lending covenants.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared them on a going concern basis.

Notes *(continued)*

1 Accounting policies *(continued)*

1.3 Foreign currency

Transactions in foreign currencies are translated to the Group'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 Group

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

(a) they include no contractual obligations upon the Group 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 Group; and

(b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group'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 Group'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 Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. These are designated as Fair Value Through Profit & Loss (FVTPL) in note 18.

Notes *(continued)*

1 Accounting policies *(continued)*

1.6 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 Group'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.

1.7 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 Group 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.

1.8 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 Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group 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.

Notes *(continued)*

1 Accounting policies *(continued)*

1.8 Intangible assets and goodwill (continued)

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 Group 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

1.9 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.

1.10 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 Group'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.

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Impairment excluding inventories, and deferred tax assets (continued)

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.

1.11 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group 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 Group 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 Group.

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 Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group'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.

1.12 Provisions

A provision is recognised in the balance sheet when the Group 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.

1.13 Revenue

The Group 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, adjusting for expected discounts and rebates. The Group 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 Group from which it generates revenue.

Notes *(continued)*

1 Accounting policies *(continued)*

1.13 Revenue (continued)

Sale of goods

The Group 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 Group 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. Gross Revenues include excise duties payable on alcohol but not other taxes collected such as value added tax. Net Revenues are Gross Revenues less excise duties. Excise duty is a production tax that is payable when alcohol is removed from bonded warehousing and is not itemised on sales invoices. If the customer fails to pay the invoiced amount the Group cannot reclaim any excise duties already paid.

With some trade customers, the company contributes towards a discount on recommended retail price to the end customer. This is settled by the trade customer paying for the total sale price, less the promotional cost. IFRS 15 requires an entity to determine the amount of consideration it expects to be received, and only recognise that revenue. Therefore, Gross Revenue has been recognised net of estimated price promotional activity.

Memberships

To date the Group 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 2019.

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 Group 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.

The transaction price is allocated evenly across the number of bottles, as each bottle is considered sufficiently unique from any others that the Group 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 Group generates revenue through operating tours and hospitality at its visitor centre and restaurant. For both, the Group 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.

1.14 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.

Notes *(continued)*

1 Accounting policies *(continued)*

1.15 Government grants

Asset based government grants received by the Group are not recognised until there is reasonable assurance that the Group 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 Group recognises as expenses to related costs for which the grants are intended to compensate.

The Group also receives income-based government grants, which are shown net in the profit and loss against the expense to which they relate. The grants are recognised in the period to which they relate and only when the conditions related to them have been fulfilled. During the period, the Group received government assistance in the form of the Coronavirus Job Retention Scheme. There are no unfulfilled conditions and no other government assistance.

1.16 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.

1.17 Leases

The Group 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 Group used the definition of a lease in IFRS 16.

The Group 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 Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group 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 Group's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method.

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.17 Leases (continued)

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

1.18 Adopted IFRSs not yet applied

There are no forthcoming accounting standards and amendments which are anticipated to have a material impact on the group.

1.19 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

2 Revenue

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Business to consumer sales	**2,811**	3,113
Business to business sales	**4,557**	3,998
Membership income	**352**	419
Total Gross revenue	**7,720**	7,530

Notes *(continued)*

2 Revenue *(continued)*

Sales by location

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Africa	**36**	-
Asia	**534**	299
Australia	**-**	21
Europe	**347**	107
ROW	**23**	3
United Kingdom	**6,780**	7,100
Total gross revenue	**7,720**	7,530

Gross revenue is the total sales price, less rebates and price promotional retrospective discounts. These discounts are provided for on a reasonable basis when the sale is made. Gross revenue includes Duty costs, the UK Government's tariff on alcohol charged at £28.74 per 1litre at 100% ABV. Net revenue is Gross revenue minus the cost of excise duties.

3 Other operating income

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Government grants	**23**	43
	23	43

The Group 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:

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Audit of these financial statements	**49**	55
Amounts receivable by the Group's auditor and its associates in respect of:		
Taxation compliance services	**5**	5
Other tax advisory services	**-**	-
Other assurance services	**-**	-

Notes *(continued)*

5 Staff numbers and costs

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

	Number of employees	
	12 months ended 30 June 2022	18 months ended 30 June 2021
Staff numbers		
Staff	**68**	65
Directors	**8**	7
	76	72

	£000	£000
Staff costs		
Wages and salaries	**2,414**	3,241
Share based payments (see note 16)	**173**	52
Social security costs	**236**	307
Contributions to defined contribution plans	**127**	145
	2,950	3,745

In the period, £2,300 *(2021:* £428,000*)* was claimed through the Job Retention Scheme and has been offset against Wages and salaries. There are no outstanding conditions relating to this government grant.

6 Directors' remuneration

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Directors' remuneration for qualifying services	**474**	535
Contributions to defined contribution pension schemes	**62**	89
Share based payments	**100**	28
	636	652

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £189,978 *(2021: £142,933)*, and Group pension contributions of £26,036 *(2021: £20,467)* 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

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Interest payable loans and borrowings	**1,206**	1,763
Interest on lease liabilities	**174**	231
Fair value movement of embedded derivative	**(615)**	9
Effective interest on convertible loan	**2,140**	1,010
Total finance expense	**2,905**	3,013

8 Taxation

Recognised in the income statement

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Current tax expense		
Current year	-	-
Adjustments for prior years	-	-
Current tax expense	-	-
Deferred tax expense		
Origination and reversal of temporary differences	-	10
Adjustments for prior years	-	(7)
Effect of rate changes	-	(3)
Deferred tax expense	-	-
Total tax expense	-	-

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

Notes *(continued)*

8 Taxation *(continued)*

Tax recognised directly in equity

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Current tax recognised directly in equity	-	-
Deferred tax recognised directly in equity	-	-
Total tax recognised directly in equity	-	-

Reconciliation of effective tax rate

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Loss for the year	(4,877)	(7,296)
Total tax expense	-	-
Loss excluding taxation	(4,877)	(7,296)
Tax using the UK corporation tax rate of 19% *(2019: 19%)*	(926)	(1,384)
Impact of non-deductible expenses	500	618
Income not taxable	(5)	-
Reduction in tax rate on deferred tax balances		-
Current year losses for which no deferred tax asset was recognised	565	1,574
Adjustments in respect of previous periods	-	(7)
Remeasurement of deferred tax for changes in tax rates	(134)	(801)
Total tax expense	-	-

Factors that may affect future current and total tax charges

At the period end, there was unrecognised deferred tax assets of £3,407,495 *(2021: £2,755,444)* 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. 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.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly.

Notes *(continued)*

8 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

	18 months ended 30 June 2021 £000	**Recognised in income £000**	**12 months ended 30 June 2022 £000**
Accelerated capital allowances	**(1,369)**	**(167)**	**(1,536)**
Short term differences, Tax losses and other deductions	**1,369**	**167**	**1,536**
	-	**-**	**-**

	29 December 2019 £000	Recognised in income £000	18 months ended 30 June 2021
Accelerated capital allowances	(491)	(878)	(1,369)
Tax losses carried forward and other deductions	491	878	1,369
	-	-	-

Notes *(continued)*

9 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 2020	187	242	4,767	607	2,381	1,593	630	10,407
Additions	22	-	1,064	-	1,349	294	-	2,729
Recognition of right of use assets	-	-	417	-	-	-	-	417
AUC Transfer	-	-	420	-	210	-	(630)	-
Disposals	-	(84)	(2)	-	(18)	(25)	-	(129)
Balance at 30 June 2021	**209**	**158**	**6,666**	**607**	**3,922**	**1,862**	**-**	**13,424**
Balance at 1 July 2021	209	158	6,666	607	3,922	1,862	-	13,424
Additions	15	3	65	1	301	661	-	1,046
Recognition of right of use assets	-	-	-	-	-	-	-	-
Disposals	(50)	(104)	(24)	-	(34)	-	-	(212)
Balance at 30 June 2022	**174**	**57**	**6,707**	**608**	**4,189**	**2,523**	**-**	**14,258**
Depreciation								
Balance at 1 January 2020	113	100	728	52	526	124	-	1,643
Charge for the year	32	76	505	18	238	125	-	994
Disposals	-	(64)	(2)	-	(3)	(4)	-	(73)
Balance at 30 June 2021	**145**	**112**	**1,231**	**70**	**761**	**245**	**-**	**2,564**
Balance at 1 July 2021	145	112	1,231	70	761	245	-	2,564
Charge for the year	23	28	393	12	229	102	-	787
Disposals	(45)	(94)	(16)	-	(25)	-	-	(180)
Balance at 30 June 2022	**123**	**46**	**1,608**	**82**	**965**	**347**	**-**	**3,171**
Net book value								
At 30 December 2019	74	142	4,039	555	1,855	1,469	630	8,764
At 30 June 2021	64	46	5,435	537	3,161	1,617	-	10,860
At 30 June 2022	**51**	**11**	**5,099**	**526**	**3,224**	**2,176**	**-**	**11,087**

Land & Buildings and Motor Vehicles include leased assets which are detailed in note 19.

Notes *(continued)*

10 Intangible assets

	Patents and trademarks £000	Website £000	Software £000	Total £000
Cost				
Balance at 30 December 2019	84	86	67	237
Additions	20	-	15	35
Disposals	-	-	-	-
Balance at 30 June 2021	**104**	**86**	**82**	**272**
Balance at 30 June 2021	104	86	82	272
Additions	24	-	1	25
Disposals	-	(65)	(10)	(75)
Balance at 30 June 2022	**128**	**21**	**73**	**222**
Amortisation				
Balance at 30 December 2019	18	52	28	98
Amortisation for the year	14	21	20	55
On disposals	-	-	-	-
Balance at 30 June 2021	**32**	**73**	**48**	**153**
Balance at 30 June 2021	32	73	48	153
Amortisation for the year	12	5	14	31
On disposals	-	(65)	(9)	(74)
Balance at 30 June 2022	**44**	**13**	**53**	**110**
Net Book Value				
At 30 December 2019	66	34	39	139
At 30 June 2021	72	13	34	119
At 30 June 2022	**84**	**8**	**20**	**112**

Notes (*continued*)

11 Inventories

	30 June 2022 £000	30 June 2021 £000
Maturing inventories	**5,929**	4,423
Raw materials and packaging	**844**	584
Finished goods	**2,362**	1,608
	9,135	6,615

During the period inventory with a value of £42,600 *(2021: £199,500)* was written off. Eligible inventory has a working capital facility secured against this. The balance of facility applicable to inventory as at 30 June 2022 was £1,431,000.

12 Trade and other receivables

	30 June 2022 £000	30 June 2021 £000
Due within one year		
Trade receivables	**663**	629
Membership debtors	**12**	64
Other trade receivables	**2**	42
Prepayments	**207**	224
	884	959

Membership debtors relate to the Founders & Quatrefoil memberships which are committed but not due. Eligible trade debt has a working capital facility secured against this. The balance of facility applicable to trade debt as at 30 June 2022 was £203,000.

13 Cash and cash equivalents

	30 June 2022 £000	30 June 2021 £000
Cash and cash equivalents per balance sheet	**1,295**	2,330
Cash and cash equivalents per cash flow statements	**1,295**	2,330

Notes (*continued*)

14 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 18.

	30 June 2022 £000	30 June 2021 £000
Non-current liabilities		
Secured bank loans	**139**	195
Convertible loans	**7,244**	5,104
Lease Liabilities	**672**	961
Working Capital Facility	**1,431**	-
	9,486	6,260
Current liabilities		
Current portion of secured bank loans	**56**	56
Working Capital Facility	**203**	-
Convertible loan	**5,721**	4,982
Lease Liabilities	**160**	115
	6,140	5,153

As at 30 June 2022 the Group had issued £3,850,000 *(2021: £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. As at 30 June 2022 this had a carrying value of £5,721,000 *(2021: £4,982,000)*. The loan can convert on Exit (including sale of Group or admission to LSE/AIM), be repaid early or run to maturity and be repaid. The term is 3 years with an option to extend to 5 years. At the year end this loan was due to be repaid on 18 July 2022. This repayment was completed by way of refinancing, giving way to a new 5 year term loan as disclosed in Note 23.

As at 30 June 2022 the Group had issued £4,600,000 *(2021: £4,600,000)* of convertible loan instruments via the British Business Bank's Future Fund. This was a government backed support mechanism initiated during the Pandemic. The instrument matures after 3 years and interest accrues at 8%. As at 30 June 2022 the loan and accrued interest had a carrying value of £7,244,000 *(2021: £5,104,000)*. Interest is not paid in cash during the term and either issuing of additional shares or cash payment of interest can be determined by the board at maturity. The instrument can convert on either qualifying or non-qualifying financing rounds at a price determined by the circumstances of that round. As per Note 23 the company carried out a qualifying financing round during 2022 and the loan converted from debt to equity on 2 November 2022.

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, although the unsecured convertible loan has subsequently converted to equity.

As at 30 June 2022, the Group had an interest bearing working capital facility in place with a utilised balance of £1,634,000. There is no fixed term placed against this facility for repayment and the current minimum period runs to November 2024. The element of the working capital facility disclosed within Current Liabilities relates to lending against Trade Receivables. This is classified as current as our normal operating cycle dictates this will be settled within 12 months of the year end. The element of the working capital facility disclosed within Non-current Liabilities relates to lending against Inventory. This lending is classified as non-current as it is primarily tied to our growing single malt inventory which has a normal operating cycle beyond 12 months (ie whisky must be matured for at least 3 years) and the company has an unconditional right to defer settlement until November 2024.

Notes *(continued)*

14 Interest-bearing loans and borrowings *(continued)*

	Currency	Nominal interest rate	Year of maturity	Nominal value 30 June 2022 £000	Carrying amount 30 June 2022 £000	Nominal value 30 June 2021 £000	Carrying amount 30 June 2021 £000
Secured bank loan	GBP	LIBOR +2.5%	2025	195	195	251	251
Secured Convertible loan	GBP	8-12%	2022	5,721	5,721	5,483	4,982
Lease Liabilities	GBP	Various	Range	832	832	1,076	1,076
Working Capital Facility	GBP	Base +4%	2024	1,634	1,634	-	-
Future Fund Convertible Loan	GBP	8%	2023	4,600	7,244	4,600	5,104
				12,982	15,626	11,410	11,413

Note that the principal amount of the Future Fund convertible loan was £4,600,000. The instrument accrues interest at 8% and if carried to maturity could, under certain circumstances, have resulted in a redemption premium of 100% of the principal (£4,600,000) being payable. The carrying value here shows the principal plus accrued interest and the accrued redemption premium, based on the effective rate of interest of the premium, as at 30 June 2022. This instrument was converted from debt to equity on 2 November 2022 and therefore the redemption premium will not fall payable.

Notes *(continued)*

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

Changes in liabilities from financing activities	Loans and borrowings £000	Lease liabilities £000	Total £000
Balance at 30 June 2021	10,337	1,076	11,413
Changes from financing cash flows			
Proceeds from loans and borrowings	981	-	981
Repayment of borrowings	(56)	(269)	(325)
Interest paid	(448)	(19)	(467)
Total changes from financing cash flows	477	(288)	189
Other changes			
Interest expense	3,422	98	3,520
Transfer from Other Liabilities	558	(54)	504
Total other changes	3,980	44	4,024
Balance at 30 June 2022	**14,794**	**832**	**15,626**

Notes *(continued)*

15 Trade and other payables

	30 June 2022 £000	30 June 2021 £000
Current		
Trade payables	**986**	926
Other payables due to related parties	**-**	4
Other payables and accrued expenses	**951**	2,026
Deferred income – Memberships	**162**	196
	2,099	3,152

	30 June 2022 £000	30 June 2021 £000
Non-current liabilities		
Deferred income – Memberships	**487**	765
Deferred government grants	**149**	171
Deferred VAT - Founders	**103**	-
	739	936

Analysis of contract liabilities with customers

	30 June 2022 £000	30 June 2021 £000
Opening balance	**961**	1,108
New memberships purchased in the year	**-**	272
Revenue recognised in the year	**(312)**	(419)
Closing balance	**649**	961

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 Group 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.

Notes *(continued)*

16 Employee benefits

Defined contribution plans

The Group operates a defined contribution pension plan.

The total expense relating to these plans in the current year was £173,000 *(2021: £52,000)*.

Share-based payments

During 2017 the Group established a share option scheme for key management personnel. The scheme is based on service and Group performance criteria with options granted during 2017 vesting over a five-year period. During 2020 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.

During 2019 the Group established an additional share option scheme for key management personnel. The scheme is based on service and Group performance criteria with options granted during 2020 vesting over a 3 year period depending on service and the Group meeting the specified criteria. During the year none of the options granted were exercised for either scheme.

During 2021 the Group established an additional share option scheme for key management personnel. The scheme is based on service with options granted during September 2021 vesting over a 2 year period depending on service. During the year none of the options granted were exercised for either scheme.

Specified criteria for these schemes includes net revenue which is disclosed in the Consolidated Income Statement on page 14 and EBITDA. EBITDA targets for share option schemes are measured on an 'adjusted EBITDA' basis, before accounting for the non-cash share-based payment expense. EBITDA for the 12 months to June 2022 was a loss of £1,154,000, adjusted EBITDA was a loss of £981,000 after adding back the non-cash share-based payment expense of £173,000.

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 21 June 2020	Equity	966,696	Board approved EBITDA targets to be met with employees remaining in employment or leaving under "good leaver" Conditions	12 June 2029
Equity Settled award to 5 employees granted by parent on 10 September 2021	Equity	345,455	Board approved with employees remaining in employment or leaving under "good leaver" Conditions	10 September 2031

Notes *(continued)*

16 Employee benefits *(continued)*

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

	Weighted average exercise price 2022 £	**Number of options 2022**	Weighted average exercise price 2021 £	Number of options 2021
Outstanding at the beginning of the year	**1.37**	**1,471,696**	1.37	1,663,696
Forfeited during the year	**-**	**-**	1.31	269,000
Exercised during the year	**-**	**-**	-	-
Granted during the year	**0.02**	**345,455**	1.50	77,000
Lapsed during the year	**-**	**-**	-	-
Outstanding at the end of the year	**1.11**	**1,817,151**	1.37	1,471,696
Exercisable at the end of the year	**1.11**	**1,817,151**	1.37	1,471,696

The weighted average share price at the date of exercise of share options exercised during the year was £1.11 *(2021: £1.37)*.

The options outstanding at the year end have an exercise price of £0.02, £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.

	30 June 2022	30 June 2021
Fair value at grant date	£0.33-£0.72	£0.33
Weighted average share price	£1.11	£1.37
Exercise price	£0.02-£1.50	£1.20-£1.50
Expected volatility (expressed as 30% using the black Scholes model	10%-30%	30%
Option life (expressed as weighted average life using the black Scholes model)	3-5	3-5
Expected dividends	0%	0%
Risk-free interest rate (based on national government bonds)	0.5%-1.75%	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)*

16 Employee benefits *(continued)*

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

	12 months ended 30 June 2022 £000	18 months ended 30 June 2021 £000
Equity settled share-based payment expense	**173**	52

17 Capital and reserves

Share capital

	30 June 2022 £000	30 June 2021 £000
At beginning of year	**594**	564
Issued for cash	**57**	30
At 30 June 2022 – fully paid	**651**	594

	2022 Number	2021 Number
On issue at start of year	**29,710,778**	28,216,631
Issued	**2,846,843**	1,494,147
On issue at end of period	**32,557,621**	29,710,778

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 Group.

During the year the Group issued 2,846,843 £0.02 ordinary shares for a consideration of £3,986,000 satisfied in cash after accounting for relevant commission costs *(2021: 1,494,147 £0.02 ordinary shares for a consideration of £2,328,000 satisfied in cash).*

Notes *(continued)*

18 Financial instruments

18 (a) Fair values of financial instruments

Fair values

All financial assets and liabilities, both current and non-current, are measured at amortised cost, except one liability, the embedded derivative in the Future Fund convertible instrument, that is designated at fair value through profit or loss. There are no liabilities or assets designated as 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 30 June 2022 £000	**Fair value 30 June 2022 £000**	Carrying amount 30 June 2021 £000	Fair value 30 June 2021 £000
Financial assets at amortised cost				
Cash and cash equivalents	**1,295**	**1,295**	2,330	2,330
Trade and other receivables	**884**	**884**	959	959
Total financial assets	**2,179**	**2,179**	3,289	3,289

	Carrying amount 30 June 2022 £000	**Fair value 30 June 2022 £000**	Carrying amount 30 June 2021 £000	Fair value 30 June 2021 £000
Financial liabilities designated as FVTPL				
Embedded Derivative (Level 3)	**109**	**109**	724	724
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings	**15,626**	**15,626**	11,413	11,413
Trade and other payables	**2,099**	**2,099**	3,152	3,152
Total financial liabilities measured at amortised cost	**17,725**	**17,725**	14,565	14,565

Financial instruments measured at fair value	**Valuation technique**	**Significant unobservable inputs (Level 3 only)**
Embedded Derivative within Future Fund Convertible Loan	Binomial Option Calculator	- Share Price up and down movements - Expected Conversion Date - Share Price Volatility

Notes *(continued)*

18 Financial instruments *(continued)*

Within the Future Fund Convertible Loan note there is deemed to be an embedded derivative that reflects the value of the option to convert the instrument to equity prior to maturity, rather than being repaid as debt. To do this management has used a binomial option calculator (as appropriate for this type of financial instrument) and made an assessment of possible future share prices, combined with likelihood of up and down moves in share price and the expected date of a possible conversion to equity.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

18 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. There are two main risks for the Group here: receivables from trade customers and receivables from Founders & Quatrefoil members (both included in trade receivables below and in note 12).

The Group 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 Group 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 is in place in the current year to safeguard against some older items *(2021: £15,000)*.

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.

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

	30 June 2022 £000	30 June 2021 £000
Trade receivables	**663**	629
Memberships	**12**	64
	675	693

Credit quality of financial assets and impairment losses

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

	Gross 30 June 2022 £000	**Impairment 30 June 2022 £000**	Gross 30 June 2021 £000	Impairment 30 June 2021 £000
Not past due	**667**	-	554	-
Past due, 0-30 days	**4**	-	85	-
Past due, 31-120 days	-	-	69	15
More than 120 days	**4**	-	-	-
	675	-	708	15

Notes *(continued)*

18 Financial instruments *(continued)*

18 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group 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 Group remains in its infancy with planned losses in this period of the business plan, as the Group 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.

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

			30 June 2022			
	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	195	222	56	166	-	-
Lease liabilities	832	1,571	248	200	365	758
Secured convertible loan	5,721	5,721	5,721	-	-	-
Trade and other payables	2,099	2,099	2,099	-	-	-
Future Fund Convertible Loan	7,244	-	-	-	-	-
Working Capital Facility	1,634	1,634	203	-	1,431	
	17,725	**11,247**	**8,327**	**366**	**1,796**	**758**

The secured convertible loan was original due for repayment on 20 June 2022. With agreement of the Company and the lenders, this maturity date was delayed until 18 July 2022 to allow for the legal completion process to take place and on 18 July 2022 this liability was settled and refinanced with a new 5-year term £5,750,000 loan. This new loan has no convertible elements and is on improved interest rates versus the previous loan shown at the balance sheet date.

Notes *(continued)*

18 Financial instruments *(continued)*

The Future Fund Convertible Loan contractual cashflows are set at £nil. At the balance sheet date it was the Directors' best estimate that the instrument is likely convert to equity prior to maturity, and this happened on 2 November 2022, as discussed in note 23. The principal amount of the loan has therefore converted to equity along with the accrued interest (it is at board discretion as to whether this interest should be paid in cash or in new equity).

18 (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 Group's income or the value of its holdings of financial instruments.

Market risk – Foreign currency risk

The Group'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. All export sales are invoiced in Sterling.

During the year purchases of £742,000 were made in Euros *(2021: £326,000)* and at the year-end £30,000 *(2021: £5,000)* was outstanding in Euros. In USD, purchases of £92,000 were made and at the year-end £24,000 was outstanding. 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.

Market risk – Interest rate risk

At the balance sheet date, the only variable rate interest-bearing financial instruments are the bank loan and asset back lending, as shown in note 14. The Directors consider a reasonably possible change in LIBOR to be 2.5% which would increase the interest expense by £50,000 which is not considered to be a material impact on the financial statements.

Notes *(continued)*

19 Leases

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 9):

	Leasehold Developments £000	**Motor vehicles £000**	**Total £000**
Balance at 30 June 2021	646	20	666
Additions to right-of-use assets	12	3	15
Depreciation charge for the year	(120)	(11)	(131)
Disposals	-	(12)	(12)
Balance at 30 June 2022	**538**	**-**	**538**

The amount recognised in the income statement were as follows:

	30 June 2022 £000	30 June 2021 £000
Interest on lease liabilities	**98**	231
Depreciation charge for the year	**131**	195
Balance at 30 June 2022	**229**	426

When measuring the lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 30 June 2022. The weighted average rate applied is 10%.

Amounts Recognised in statement of cash flows

	2022 £000
Total cash outflow for leases	269

Notes *(continued)*

20 Related parties

During the period the following transactions took place between the Group and related parties:

Transactions		Balances at 30 June		Details	Relationship
2022	2021	**2022**	2021		
£000	£000	**£000**	£000		
Goods and Services Received					
20	31	-	4	Trout Hotels (Cumbria) Limited	Common Directorships NJ Mills
25	45	-	-	Comhar Capital Limited	Common Directorship Craig Wilkinson
Goods and Services Sold					
15	14	-	2	Trout Hotels (Cumbria) Limited	Common Directorships NJ Mills

21 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 judgements. They consider that the valuation of the embedded derivative in the Future Fund convertible instrument requires significant estimate or judgement which could have a significant impact on the financial statements.

Valuation of Embedded Derivatives

An assessment of the valuation of the conversion option the Future Fund investment was made upon entering that loan agreement and again the year end. The instrument was measured using a binomial option calculator, as is appropriate for this type of instrument, and assumptions on future share prices, share price volatility and the expected conversion date were based on management's best estimate at the date of valuation. This will be revalued at each year end.

In addition they have also identified the following area which requires a degree of estimation:

Valuation of stock

An assessment as to the ability of the Group 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.

Notes *(continued)*

22 Investments in subsidiary (Company only)

Associates and joint ventures

	30 June 2022 £	30 June 2021 £
Investment in The Lakes Distillery Company Ireland Limited	**1**	1
Total carrying amount for equity accounted investees in these financial statements	**1**	1

The Lakes Distillery Company Ireland Limited was incorporated on 9 March 2021 and the registered address is The Mews, 10 Pembroke Place, Dublin, Dublin 2, Ireland. The Lakes Distillery Company plc is the only shareholder and it is a 100% owned subsidiary of The Lakes Distillery Company plc. This entity was established in order to facilitate trade in the EU following the UK's departure from the EU and there were no transactions in this entity during the period.

23 Post Balance Sheet Events

Refinancing & Property Purchase

On 18 July 2022 the Group entered into a new financing arrangement that replaced a secured convertible loan which was outstanding. This new £5,750,000, 5 year term loan also facilitated the repayment of a £195,000 secured bank loan. This refinancing provides the company with an improved financial position with which to base future growth on. In addition, the lender has also provided £2,600,000 in additional funding to facilitate the purchase of the freehold of the distillery leasehold. This transaction completed on 9th September 2022 and not only does this enhance the strength of our balance sheet moving forward, but it also secures the home of our brand and gives us future options for further development as the business grows.

Equity Financing Round & Future Fund Conversion

Following the balance sheet date the Group issued a further 499,147 £0.02 ordinary shares for a consideration of £723,763 satisfied in cash. This took the total amount raised in the round that began in January 2022 to just over £4,850,000.

This constituted a Qualifying Financing Event under the terms of the unsecured convertible loan known as the Future Fund. As per the terms of this instrument this event triggered the process of converting it from debt into ordinary share capital which was executed on 2 November 2022. As a result of this conversion a further 4,496,762 £0.02 ordinary shares were issued. This transaction constitutes a non-adjusting post balance sheet event for these financial statements. Further details about the impact of the transaction have been included in the Strategic Report on page 3.