The Lakes Distillery Company plc

Annual report and financial statements

Registered number 07769363

30 June 2021

Contents

Strategic Report

This Strategic Report has been prepared for The Lakes Distillery Company plc for the financial period ended 30 June 2021. During the period the company has amended its year end to 30 June and as result we are now reporting an 18-month period. This change was made for internal reasons to allow for more efficient business planning processes and increased operational focus during peak selling periods. In addition, this period has seen the establishment of a subsidiary entity in Ireland because of Brexit and the resulting requirements of shipping into Europe. We are therefore presenting Group and Company accounts for the first time so you will notice references throughout to Group, Company and Consolidated accounts. However, it should be noted that there have been no transactions in the Irish entity other than its incorporation in the year and so the results presented here reflect the trading of The Lakes Distillery Company plc.

Review of the business

The Company operates a distillery with visitor centre, comprising of a tour facility, shop and bistro, which opened to the public in December 2014. The impact of Covid-19 on the business is discussed in further detail below.

During the year the Company has continued the release of its flagship single malt products under the Whiskymaker's Reserve brand, and this has been supplemented by the release of the successful Whiskymaker's Edition range. Both product ranges have been positively received by the market and have created significant demand, often in excess of supply at this stage. Similarly, the re-branding of our blended whisky and white spirits portfolio was completed and despite the Pandemic we have seen very positive sales across the customer and consumer base because of the re-branding.

At our home in the Lake District, we have completed major capital projects to enhance our visitor experience and deliver increased single malt production. We are pleased to report that we are now able to utilise our increased production capacity to move beyond our historic maximum level.

To fund these successes the company has received significant investment during the year, a total of £2.3m of equity and £4.6m of convertible loan notes through the government approved Future Fund, administered by the British Business Bank and taken up by 1,190 companies during the Pandemic.

During the period both our Chairman, Alan Rutherford, and our co-founder Paul Currie have moved into consultancy roles. Alan has served as Chairman since June 2018 but has been involved as a non-executive director for almost 8 years. Alan's leadership, insight and contribution to our journey cannot be underestimated and we are delighted to retain his industry knowledge and expertise as consultant. The Lakes Distillery simply would not exist without the vision and passion of Paul Currie. Paul has been instrumental in creating the fantastic business and brands we have today and again we are thrilled to be continuing our work with Paul as a consultant. We thank both Alan and Paul for the indelible mark they have left on our history and wish them well in their future pursuits.

As a result of Alan's retirement from the board, we are delighted that Tim Farazmand has taken over as Chairman.

Covid-19 Global Pandemic

Sadly this 18-month period has seen the outbreak of coronavirus and the ensuing global Pandemic. This has presented a number of challenges to the business, chief among them:

- The safety of our people and visitors
- The impact of the closure of the hospitality industry
- The suspension of global travel

Strategic Report *(continued)*

Safety of our People and Visitors

At all times this has been paramount in our mind. We have at every stage followed or gone further than government advice recommended to ensure that our people working at the distillery, in our offices or remotely were able to do their job as safely as possible. Operating through our Health and Safety committee the reopening of the distillery hospitality offering following government enforced lockdowns was done after rigorous risk assessments. This was warmly received by our visitors with numerous comments as to how well our people were coping with the new normal and creating a safe environment for all concerned. Our office-based staff also reacted tremendously in the face of the upheaval caused by stay-at-home guidance; their ability to switch into remote working and embracing this change was pivotal in allowing us to navigate our way through this difficult period. The directors are immensely proud of the response of our colleagues throughout the last 18 months.

Closure of Hospitality Industry

This has applied to all global markets we currently operate in, but it was particularly felt at home. We closed our distillery hospitality offering to the public ahead of the first lockdown on 23 March 2020. Although, we needed to downsize some of our teams in response to this, the existence and support of the Job Retention Scheme (Furlough) meant we were largely able to keep our teams together to plan and execute successful reopening as we moved in and out of lockdown. Nevertheless, we estimate that lost revenue due to the closure of our own distillery hospitality offering over this 18-month period was more than £1.3m. Compounding that our recently strengthened UK Sales team have been hampered by not being able to head out to meet customers and grow our distribution in the On Trade which is crucial to building brand.

Suspension of Global Travel

The most immediate impact to us was the loss of our travel retail customer which had become an important part of our volume. On top of this, progress in our key export territories has been delayed, as our team was prevented from travelling to meet new customers and distributors and the local markets were experiencing the same issues as we were facing in the UK.

Coming Out of the Global Pandemic

Despite these significant headwinds and the disruption caused by Covid-19, the response from our people was phenomenal. As a result of their resilience and positivity we were able to adapt our business and capitalise on the opportunities available to us and ultimately, despite the severe financial impact of the Pandemic, we are reporting now with a business in a very strong position relative to the challenges we have faced.

Our Brands

Despite obvious challenges, our brand has continued to flourish during the past 18 months, and we have strengthened our reputation as an innovative whiskymaker, adding valuable equity to our brand.

Independent expert endorsements have increased our reputation as a quality single malt whiskymaker, with The Whiskymaker's Reserve receiving Gold Medals at several international spirits competitions, including the 2020 World Whiskies Awards. It has also been officially 'recommended' by Whisky Magazine.

Named one of '1000 Businesses to Inspire Britain' in 2020 by The London Stock Exchange Group, a focus on increasing exposure for The Lakes Whisky in London's prestigious on-trade venues is paying dividends. Reflecting the quality of our brand, we have new menu listings in, amongst many others, The Painters Room at Claridges and Scarfes Bar at The Rosewood London Hotel.

Continuing to regularly release new single malt whisky, our latest series of Editions are exceptional diversions from our sherry-led house style. Launched with The Whiskymaker's Editions, Colheita, our second Edition, Le Goûter, was an exclusive partnership with Harvey Nichols which enabled us to reach new whisky buyers and sell out within 48 hours online and in their UK stores. Since June, five additional limited Editions have been released - and subsequently sold out - each strategically positioned to raise our profile amongst new and different audiences.

To increase brand awareness for our spirits, we have worked with many recognised and trusted national media companies, where our spirits have been very positively received, including by hosts and guests on BBC's Saturday Kitchen, ITV's This Morning and Love Your Weekend, and C4's Sunday Brunch.

Strategic Report *(continued)*

Our Brands *(continued)*

We are honoured to also be part of a series of documentary-style films, Love Letters from Britain. Produced by BBC StoryWorks Commercial Productions for Walpole, the association for British luxury brands, the Love Letters seek to inspire a global audience by showcasing companies who lead the way in defining a new era of innovation and creativity. Featuring a host of well-known brands, each film has a distinct narrative and, in collaboration with the government's GREAT campaign saw a highly targeted month-long international campaign to raise our profile with new audiences in key international markets where our brand footprint is growing due to the support of strong distribution partners.

E-commerce Success

With the onset of the Pandemic consumer behaviour switched towards online purchasing. With a well-established E-commerce platform and despatch operation already in place we were positioned to deliver for our consumers. This resulted in Y-O-Y growth of 180% for the 12 months to 31 December 2020 vs the 12 months to 31 December 2019.

Reopening our Distillery Hospitality

Following reopening of the distillery we have opted to move the Bistro to a purely daytime offering, supplemented by private evening events. This has allowed us to run a more efficient operation that focuses on supporting daytime activity at the distillery. This change, combined with the impact of our re-branding and release of more single malt meant that when the site was open, footfall and spend were strong and we were able to reach 2019 levels of total distillery revenue with reduced overall opening hours.

UK Distribution Footprint

Despite the challenges faced in the hospitality, or On Trade sector, our UK sales team have made excellent progress in building our UK distribution in both the Off Trade and with online and spirits specialists. We have seen gains across our multiple retail customers, online partners and with those local spirits or whisky specialists which are key to getting our brand story heard. During this period, we have also made some important recruits in this team and we stand poised to continue this good work going forward.

Export Progress

During this 18-month period we have shipped our brands to nine export territories and since year end, we have continued to expand on this. Export is critical to our long-term business planning, and we are pleased with the progress made despite the obvious impact of the Pandemic.

Brexit

The UK's withdrawal from the EU was completed on 31 January 2020. Since then, we have moved through the transition period and left the single market and customs union. This has had two main impacts on the business. Firstly, we have had to create a subsidiary entity (The Lakes Distillery Company Ireland Limited) to facilitate shipping goods into Europe and allow us to adhere to food and drink labelling regulations in the EU. Secondly, there have been supply chain issues that have been felt across the economy because of Brexit, but we have managed to mitigate those through careful planning and as yet they have had no material impact on the business.

Strategic Report *(continued)*

Changes in Reporting

You will now see the Income Statement refer to Gross and Net Revenue for the first time. These concepts are well understood within the spirits industry and allow us to analyse our sales without the impact of excise duty that is charged on alcohol. At present this only impacts our UK sales (export sales not attracting excise duty for alcohol on our sale into the territory as it is settled by the distributor in territory). Our invoiced sales in the UK, be it B2C or B2B, almost exclusively include excise duty now. Excise duty is a production tax which is passed on through invoice pricing and cannot be controlled by the company. As we expand we expect sales without duty to become a larger share of our total revenue and as such we will be showing the impact of duty separately so that we can analyse sales excluding this. This amount was previously included within total revenue and cost of goods sold and there has been no change to Gross Profit or Operating Profit because of this re-statement of the 2019 results. This change aligns us with other spirits companies, particular larger spirits groups and will enhance the comparability of our performance going forward.

Key performance indicators

The following KPIs are relevant to understanding the business performance for the 18 month period to June 2021.

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Gross Revenue	**7,530**	6,094
Gross profit	**2,985**	2,208
Distillery Tours (number)	**17,433**	32,338
Bistro Covers (number)	**34,062**	54,995

KPI analysis of 12-month period to June 2021 versus June 2020.

	12 months to June 2021 £000	12 months to June 2020 £000
Gross Revenue	**6,225**	5,533
Gross profit	**2,229**	1,840
Distillery Tours (number)	**12,365**	21,679
Bistro Covers (number)	**25,879**	35,537

From the June 2021 vs June 2020 KPIs above we can see that we have faced a 43% fall in Distillery Tours and a 27% decline in Bistro covers; this has been a result of lockdown and social distancing measures and shows the impact of the Pandemic on our hospitality business unit and is indicative of wider trading conditions we have faced. Despite this we have managed to grow gross revenue by 13% due to increased availability of single malt (volume up 19%), the success of our rebranded spirits portfolio leading to increased rates of sale and the building of our UK and Export routes to market. Importantly, this has been achieved whilst raising the aggregate gross margin of the business to 36% from 33%. Despite challenging conditions, we are making tangible progress.

Strategic Report *(continued)*

Key performance indicators *(continued)*

In addition to the KPIs noted above the board continue to monitor operating and pre-tax losses in the business. The loss for this period has been increased because of a number of factors:

- Reporting on an extended period.
- The impact of the Pandemic (estimated £1.3m of lost revenue in the distillery hospitality business unit alone but material amounts of revenue lost in both UK and Export B2B markets).
- The increased levels of debt in the business (an otherwise positive development but this now generates increased finance charges).

As a result, both operating and pre-tax loss have increased since 2019. The increase in finance costs reflects the debt finance brought into the business in June 2019 and December 2020. We have had a full 18-month interest charge on the debt entered into in June 2019 versus 6 months charge in last year's accounts (and note that the majority of that charge is not paid in cash). In addition to that the Future Fund Debt carries accrued interest charges (£0.2m in 2021) but also the amortisation of a potential redemption premium (£1.01m in 2021) over the life of the loan. If this loan converts to equity neither of those charges will result in a cash outflow from the business and subject to future judgements on the fair value of equity issued on conversion and future accounting policy choices the redemption premium charge could be reversed to retained earnings in future periods. Consequently, of the £3.01m finance charge in 18 months to 30 June 2021 only £0.46m of interest was paid in cash. Therefore, despite reporting over a longer period £4.33m of cash was used in operating activities versus £4.76m for the 12 months to 30 June 2019 (see cashflow statement for further details).

This demonstrates that as the business moves through its growth cycle towards break even and profitability, we have been able to attract more debt into the business and that operationally we are starting to require less cash to fund the business.

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

Principal risks and uncertainties

Details of the principal risks and uncertainties are listed below, with further details included in note 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. Nevertheless, an impairment provision of £15,000 is in place to safeguard against some older items *(2019: £nil)*.

The receivables from Founders & Quatrefoil members relates to part monies due on payment schedules of their membership. There is no significant history of impairment with this because delivery of the product is contingent on timely payment against their schedule. There is no concentration risk in one debtor as the receivable is due from many members. No impairment provision was required in the current year *(2019: 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 learn to live with the impact of the Covid 19 Pandemic. This may include pockets of subdued economic activity or even returns to lockdown in either the UK or abroad. The impact on the Group of these events since March 2020 has been significant and has been discussed above. Although forecasting the impact of Covid-19 beyond the date of this report is difficult, there are a number of positive developments that lead the directors to believe that the general level of activity will increase beyond 2021, particularly as we are able to release increasing amounts of single malt whisky and the continued success of the rebranded portfolio. We are already starting to see the evidence for this in our unaudited 2022 financial year results. 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.

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 £7,296,000 and a net cash outflow from operating activities of £4,326,000. The directors consider this to be appropriate for the following reasons.

The Group had cash at bank of £2,330,000 as at 30 June 2021 and funds its operations and working capital through a combination of bank and other loans, working capital facilities, convertible loans and equity raises. The Group's secured convertible loan instrument, which at the year-end had a balance of £4,982,000, is due for maturity in June 2022. As at the date of approval of these financial statements, the directors are in the process of refinancing this instrument which would extend the date of repayment until 2027, however this has yet to be agreed. In the event this is not refinanced, the instrument holders have the option to extend repayment for another two years, however, this is at their discretion and there is no certainty they will elect to do this. The directors consider this gives rise a material uncertainty.

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 also the receipt of additional debt or equity funding to fund the planned increase in single malt whisky production. They have also considered a severe but plausible downside scenario which assumes that the planned fundraising does not transpire, along with a 6-month closure of the distillery as a consequence of potential future lockdowns, with a gradual return to normal trading levels thereafter. Mitigating actions, for example halting the increase in single malt whisky production, were also considered.

The forecasts indicate that the Group would require further funding in the forecast period, either from its existing lenders or from other sources. No agreement is in place for the provision of this additional funding at the date of approving these financial statements and while the directors are confident that such additional funding could be obtained, they acknowledge that there can be no certainty of this, and that the absence of further funding gives rise to a material uncertainty. In addition, the working capital facilities require that the covenants for each financial year are agreed between the Group and the lender annually in advance of the relevant calendar year. At the date of approval of these financial statements, the covenants for the year ending 31 December 2022 have not yet been agreed with the lender. Based on discussion with the lender, the Directors are confident that the covenants will be agreed and that the Group will be able to operate within these even in the downside case, however, in the absence of such an agreement there can be no certainty that the Group will be able to operate within he agreed covenants, and this gives rise to a material uncertainty.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, the uncertainties around: the potential repayment of the convertible loan instrument; the availability of future funding; and, the uncertain covenant thresholds relating to the working capital facilities, gives rise to a material uncertainty related to events and conditions that may cast significant doubt on the Group and Group's ability to continue as a going concern and, therefore, the Group and Comapny may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being appropriate.

By order of the board

D Robinson

David Robinson
Chief Financial Officer

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Kenton Road,
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NE3 4NB

18th November 2021

Directors' Report

The Directors present their report and audited financial statements for the period ended 30 June 2021.

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 was formally constituted in 2019 and has convened as required during the period with the following key responsibilities:

- To monitor the integrity of the financial statements of the Group.
- Review the Group's internal financial controls and internal control and risk management processes.
- Review the adequacy and security of the Group's arrangements for whistleblowing.
- To review the adequacy of financial resource available to the Group and the need for internal audit.
- Review 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.
- Consider the external audit plan and the findings of the audit.

The non-executive Directors who served as members of the Audit Committee in the 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 2021 financial period, accounting judgements and valuation techniques relating to convertible loan instruments, accounting for excise duties and accounting for price promotional activity. 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 18 months ended 30 June 2021 and the external audit thereof. Particular scrutiny was given to the basis for making the going concern assumption, the impact of Covid-19 and associated reporting and to significant transactions, judgements and estimates. The external Auditor's Report on audit findings was considered and the committee held a closed session with the external auditor in the absence of management.

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

Remuneration Committee

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

- Agree with the Board a framework and policy for the remuneration and benefits of the Chairman, the Executive Directors and other senior executives of the 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)*

During the year Paul Neep was appointed Chairman of the Committee with Tim Farazmand, Richard Hutton and Craig Wilkinson being the other members. Andrew Davidson acts 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. This is set at a level to facilitate recruitment and retention within the business.
- An annual bonus plan which rewards performance against specific near-term goals consistent with the strategy of the business. The bonus scheme is self-funding and only pays out if the achieved profit performance exceeds the annual objective.
- Performance share plans. Their aim is to reward long term value creation, facilitate share ownership and provide a retention tool. During the year and subsequent to the year end the Committee recommended various awards in line with meeting long-term financial objectives and to aid retention.

Results & dividends

The loss for the period was £7,296,000 *(2019: £3,467,000)*. The Directors do not recommend the payment of a dividend *(2019: £nil)*.

Directors

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

Paul Currie	(resigned 31 December 2020)
Nigel Mills CBE	
Dr Alan Rutherford OBE	(resigned 31 December 2020)
David Robinson	
Tim Farazmand	
Richard Hutton	
Paul Neep	
Craig Wilkinson	
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 *(2019: £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

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18th November 2021

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, relevant 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 18 month period ended 30 June 2021 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 2021 and of the group's loss for the 18 months period then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, 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.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements which indicates that, according to the forecasts prepared by the directors, the group and parent company, will require further funding and no agreement is in place for the provision of this funding. Further, the financial covenants for the year ending 31 December 2021 relating to the working capital facilities, which are set annually in advance, and the refinance or deferral of the convertible loan instrument have not yet been agreed. In the absence of such agreements, there can be no certainty that the company will be able to operate within the agreed covenants or will not be required to repay the financing. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the group and parent company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that material uncertainties related to going concern exist.

Based on our financial statements audit work, we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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 and the risk that management may be in a position to make inappropriate accounting entries. 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 external documentation to corroborate whether those items were recorded in the correct accounting period.
- Recalculating the membership revenue released in the 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, and through discussion with the directors 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, 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.

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 11, 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.

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

Auditor's responsibilities

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

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

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

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

T. Stonehouse

Tara Stonehouse **(Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
18th November 2021

Consolidated Income Statement
for the 18 month period 30 June 2021

	Note	2021 £000	12 months ended 2019 £000 Re-stated
Gross Revenue	2	**7,530**	6,094
Duty		**(2,193)**	(1,382)
Net Revenue		**5,337**	4,712
Cost of sales		**(2,352)**	(2,504)
Gross profit		**2,985**	2,208
Other operating income	3	**43**	122
Distribution expenses		**(278)**	(135)
Administrative expenses		**(7,033)**	(5,137)
Operating loss		**(4,283)**	(2,942)
Financial expenses	7	**(3,013)**	(525)
Loss before tax		**(7,296)**	(3,467)
Taxation	8	**-**	-
Loss for the year		**(7,296)**	(3,467)

Consolidated Statement of Other Comprehensive Income
for the 18 month period 30 June 2021

	2021 £000	12 months Ended 2019 £000
Loss for the year	**(7,296)**	(3,467)
Other comprehensive income	**-**	-
Total comprehensive expense for the year	(7,296)	(3,467)

Balance Sheets

	Note	Group 30 June 2021 £000	Company 30 June 2021 £000	Group 29 December 2019 £000	Company 29 December 2019 £000
Non-current assets					
Property, plant and equipment	*9*	**10,860**	**10,860**	8,764	8,764
Intangible assets	*10*	**119**	**119**	139	139
Trade and other receivables	*12*	-	-	25	25
Investment in subsidiaries	*22*	-	-	-	-
		10,979	**10,979**	8,928	8,928
Current assets					
Inventories	*11*	**6,615**	**6,615**	4,702	4,702
Trade and other receivables	*12*	**959**	**959**	1,105	1,105
Cash and cash equivalents	*13*	**2,330**	**2,330**	3,701	3,701
		9,904	**9,904**	9,508	9,508
Total assets		**20,883**	**20,883**	18,436	18,436
Current liabilities					
Interest-bearing loans and borrowings	*14*	**(5,153)**	**(5,153)**	(209)	(209)
Trade and other payables	*15*	**(3,152)**	**(3,152)**	(1,883)	(1,883)
Provisions		-	-	(54)	(54)
Derivative Financial Liability	*18*	**(724)**	**(724)**	-	-
		(9,029)	**(9,029)**	(2,146)	(2,146)
Non-current liabilities					
Interest-bearing loans and borrowings	*14*	**(6,260)**	**(6,260)**	(5,805)	(5,805)
Deferred government grants	*15*	**(171)**	**(171)**	(34)	(34)
Deferred Income – Memberships	*15*	**(765)**	**(765)**	(877)	(877)
		(7,196)	**(7,196)**	(6,716)	(6,716)
Total liabilities		**(16,225)**	**(16,225)**	(8,862)	(8,862)
Net assets		**4,658**	**4,658**	9,574	9,574
Equity					
Share capital	*17*	**594**	**594**	564	564
Share premium		**9,023**	**9,023**	6,725	6,725
Share based payment reserve		**173**	**173**	121	121
Retained earnings		**(5,132)**	**(5,132)**	2,164	2,164
Total equity		**4,658**	**4,658**	9,574	9,574

These financial statements were approved by the board of Directors on 18th November 2021 and were signed on its behalf by:

D Robinson

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 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**

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 1 January 2019	466	-	38	5,631	6,135
Total comprehensive expense for the year					
Loss for the year	-	-	-	(3,467)	(3,467)
Total comprehensive expense for the year	-	-	-	(3,467)	(3,467)
Contributions by and distributions to owners					
Issue of shares	98	6,725	-	-	6,823
Equity-settled share-based payment transactions	-	-	83	-	83
Total contributions by and distributions to owners	98	6,725	83	-	6,906
Balance at 29 December 2019	**564**	**6,725**	**121**	**2,164**	**9,574**

Cash Flow Statements

for the 18 month period ended 30 June 2021

	Note	Group 2021 £000	Company 2021 £000	*Group 12 months ended* 2019 £000	*Company 12 months ended* 2019 £000
Cash flows from operating activities					
Loss for the year		**(7,296)**	**(7,296)**	(3,467)	(3,467)
Adjustments for:					
Depreciation and amortisation	*9,10*	**1,049**	**1,049**	530	530
Financial expense	*7*	**3,013**	**3,013**	525	525
Deferred government grant		**(43)**	**(43)**	(122)	(122)
Equity settled share-based payment expenses		**52**	**52**	83	83
Loss on disposal of equipment		**13**	**13**	7	7
Tax		-	-	-	-
		(3,212)	**(3,212)**	(2,444)	(2,444)
Decrease in trade and other receivables		**220**	**220**	185	185
Increase in inventories		**(1,917)**	**(1,917)**	(673)	(673)
Increase/(decrease) in trade and other payables		**583**	583	(1,830)	(1,830)
		(1,114)	**(1,114)**	(2,318)	(2,318)
Net cash from operating activities		**(4,326)**	**(4,326)**	(4,762)	(4,762)
Cash flows from investing activities					
Acquisition of property, plant and equipment	*9*	**(2,709)**	**(2,709)**	(1,514)	(1,514)
Interest Received		**8**	**8**	3	3
Proceeds from the receipt of government grants		**169**	**169**	-	-
Proceeds from the disposal of assets		**42**	**42**	13	13
Acquisition of other intangible assets	*10*	**(35)**	**(35)**	(56)	(56)
Net cash from investing activities		**(2,525)**	**(2,525)**	(1,554)	(1,554)
Cash flows from financing activities					
Proceeds from the issue of share capital	*17*	**2,328**	**2,328**	6,450	6,450
Proceeds from new convertible loan	*14*	**4,600**	**4,600**	3,850	3,850
Interest paid		**(461)**	**(461)**	(234)	(234)
Proceeds from asset financing		**407**	**407**	135	135
Repayment of borrowings		**(1,125)**	**(1,125)**	(155)	(155)
Repayment of lease liabilities		**(269)**	**(269)**	(171)	(171)
Net cash from financing activities		**5,480**	**5,480**	9,875	9,875
Net (decrease)/increase in cash and cash equivalents		**(1,371)**	**(1,371)**	3,559	3,559
Cash and cash equivalents at the start of period		**3,701**	**3,701**	142	142
Cash and cash equivalents at the end of period	*13*	**2,330**	**2,330**	3,701	3,701

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 International Financial Reporting Standards as adopted by the EU ("IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. There has been a change in the presentation of the Income Statement, which now refers to Gross and Net Revenue. This has resulted in the reclassification of £2,193,000 (*2019: £1,382,000*) of costs from Cost of Sales to Duty and the addition of a Net Revenue sub-total. There has been no change to Gross Profit or Operating Profit as a consequence of this change. The directors consider this presentation to be more relevant and reliable to the users of the financial statements as it is an industry standard presentation within the spirits industry and will allow greater comparability of performance to other companies in the industry.

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 £7,296,000 and a net cash outflow from operating activities of £4,326,000. The directors consider this to be appropriate for the following reasons.

The Group had cash at bank of £2,330,000 as at 30 June 2021 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 £3,482,000 (unaudited). The Group's secured convertible loan instrument, which at the year-end had a balance of £4,982,000, is due for maturity in June 2022. As at the date of approval of these financial statements, the directors are in the process of refinancing this instrument which would extend the date of repayment until 2027, however this has yet to be agreed. In the event this is not refinanced, the instrument holders have the option to extend repayment for another two years, however, this is at their discretion and there is no certainty they will elect to do this. The directors consider this gives rise a material uncertainty. .

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 also the receipt of additional debt or equity funding to fund the planned increase in single malt whisky production. They have also considered a severe but plausible downside scenario which assumes that the planned fundraising does not transpire, along with a 6-month closure of the distillery as a consequence of potential future lockdowns, with a gradual return to normal trading levels thereafter. Mitigating actions, for example halting the increase in single malt whisky production, were also considered.

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern (continued)

The forecasts indicate that the Group would require further funding in the forecast period, either from its existing lenders or from other sources. No agreement is in place for the provision of this additional funding at the date of approving these financial statements and while the directors are confident that such additional funding could be obtained, they acknowledge that there can be no certainty of this, and that the absence of further funding gives rise to a material uncertainty. In addition, the working capital facilities require that the covenants for each financial year are agreed between the Group and the lender annually in advance of the relevant calendar year. At the date of approval of these financial statements, the covenants for the year ending 31 December 2022 have not yet been agreed with the lender. Based on discussion with the lender, the Directors are confident that the covenants will be agreed and that the Group will be able to operate within these even in the downside case, however, in the absence of such an agreement there can be no certainty that the Group will be able to operate within he agreed covenants, and this gives rise to a material uncertainty.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, the uncertainties around: the potential repayment of the convertible loan instrument; the availability of future funding; and, the uncertain covenant thresholds relating to the working capital facilities, gives rise to a material uncertainty related to events and conditions that may cast significant doubt on the Group and Group's ability to continue as a going concern and, therefore, the Group and Comapny may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being appropriate.

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

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Business to consumer sales	**3,113**	2,526
Business to business sales	**3,998**	3,311
Membership income	**419**	257
Total Gross revenue	**7,530**	6,094

Notes *(continued)*

2 Revenue *(continued)*

Sales by location

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Asia	**299**	45
Australia	**21**	97
Europe	**107**	159
ROW	**3**	10
United Kingdom	**7,100**	5,783
Total gross revenue	**7,530**	6,094

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

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Government grants	**43**	122
	43	122

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:

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Audit of these financial statements	**55**	28
Amounts receivable by the Group's auditor and its associates in respect of:		
Taxation compliance services	**5**	6
Other tax advisory services	**-**	3
Other assurance services	**-**	3

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	
	18 months ended 30 June 2021	12 months ended 29 December 2019
Staff numbers		
Staff	**65**	68
Directors	**7**	6
	72	74

	£000	£000
Staff costs		
Wages and salaries	**3,241**	2,306
Share based payments (see note 16)	**52**	83
Social security costs	**307**	202
Contributions to defined contribution plans	**145**	98
	3,745	2,689

In the period, £428,000 *(2019: £nil)* 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

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Directors' remuneration for qualifying services	**535**	406
Contributions to defined contribution pension schemes	**89**	54
Share based payments	**28**	25
	652	485

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £142,933 *(2019: £99,000)*, and Group pension contributions of £20,467 *(2019: £37,600)* 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

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Interest on finance leases	-	11
Interest payable loans and borrowings	1,763	465
Interest on right of use leases	231	49
Fair value movement of embedded derivative	9	-
Effective interest on convertible loan	1,010	-
Total finance expense	3,013	525

8 Taxation

Recognised in the income statement

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £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

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Current tax recognised directly in equity	**-**	-
Deferred tax recognised directly in equity	**-**	-
Total tax recognised directly in equity	**-**	-

Reconciliation of effective tax rate

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Loss for the year	**(7,296)**	(3,467)
Total tax expense	**-**	-
Loss excluding taxation	**(7,296)**	(3,467)
Tax using the UK corporation tax rate of 19% *(2019: 19%)*	**(1,384)**	(659)
Impact of non-deductible expenses	**618**	170
Income not taxable	**-**	-
Reduction in tax rate on deferred tax balances	**-**	-
Current year losses for which no deferred tax asset was recognised	**1,574**	438
Adjustments in respect of previous periods	**(7)**	51
Remeasurement of deferred tax for changes in tax rates	**(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 £2,755,444 *(2019: £1,181,028)* 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

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

	31 December 2018 £000	Recognised in income £000	29 December 2019 £000
Accelerated capital allowances	(491)	-	(491)
Tax losses carried forward and other deductions	491	-	491
	-	-	-

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 2019	143	189	4,183	596	2,093	1,215	-	8,419
Additions	44	25	123	11	288	393	630	1,514
Recognition of right of use assets	-	50	462	-	-	-	-	512
Disposals	-	(22)	(1)	-	-	(15)	-	(38)
Balance at 29 December 2019	187	242	4,767	607	2,381	1,593	630	10,407
Balance at 30 December 2019	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**
Depreciation								
Balance at 1 January 2019	86	58	514	41	405	60	-	1,164
Charge for the year	27	55	214	11	121	66	-	494
Disposals	-	(13)	-	-	-	(2)	-	(15)
Balance at 29 December 2019	113	100	728	52	526	124	-	1,643
Balance at 30 December 2019	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**
Net book value								
At 1 January 2019	57	131	3,669	555	1,688	1,155	-	7,255
At 29 December 2019	**74**	**142**	**4,039**	**555**	**1,855**	**1,469**	**630**	**8,764**
At 30 June 2021	**64**	**46**	**5,435**	**537**	**3,161**	**1,617**	**-**	**10,860**

Notes *(continued)*

9 Property, plant and equipment *(continued)*

Leased plant and machinery

Land & Buildings and Motor Vehicles include leased assets which are detailed in note 20.

10 Intangible assets

	Patents and trademarks £000	Website £000	Software £000	Total £000
Cost				
Balance at 1 January 2019	60	105	57	222
Additions	24	22	10	56
Disposals	-	(41)	-	(41)
Balance at 29 December 2019	84	86	67	237
Balance at 29 December 2019	84	86	67	237
Additions	20	-	15	35
Disposals	-	-	-	-
Balance at 30 June 2021	104	86	82	272
Amortisation				
Balance at 1 January 2019	11	76	16	103
Amortisation for the year	7	17	12	36
On disposals	-	(41)	-	(41)
Balance at 29 December 2019	18	52	28	98
Balance at 29 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
Net Book Value	**49**	**29**	**41**	**119**
At 1 January 2019				
At 29 December 2019	66	34	39	139
At 30 June 2021	**72**	**13**	**34**	**119**

Notes (*continued*)

11 Inventories

	30 June 2021 £000	29 December 2019 £000
Maturing inventories	**4,423**	3,215
Raw materials and packaging	**584**	468
Finished goods	**1,608**	1,019
	6,615	4,702

During the period inventory with a value of £199,527 *(2019: £334,777)* were written off due to the rebranding exercise undertaken.

12 Trade and other receivables

	30 June 2021 £000	29 December 2019 £000
Due within one year		
Trade receivables	**629**	526
Membership debtors	**64**	95
Other trade receivables	**42**	130
Prepayments	**224**	354
	959	1,105
Due after more than one year		
Membership debtors	**-**	25

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

13 Cash and cash equivalents

	30 June 2021 £000	29 December 2019 £000
Cash and cash equivalents per balance sheet	**2,330**	3,701
Cash and cash equivalents per cash flow statements	**2,330**	3,701

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 19.

	30 June 2021 £000	29 December 2019 £000
Non-current liabilities		
Secured bank loans	**195**	223
Other secured loan	**-**	1,125
Convertible loans	**5,104**	3,862
Lease Liabilities	**961**	595
	6,260	5,805
Current liabilities		
Current portion of secured bank loans	**56**	55
Convertible loan	**4,982**	-
Lease Liabilities	**115**	154
	5,153	209

As at 30 June 2021 the Group had issued £3,850,000 *(2019: £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 2021 this had a carrying value of £4,982,000 *(2019: £3,862,000)*. 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. If converted on exit the loan would convert at the prevailing share price and as such a variable number of the Group's equity instruments would be issued at that point.

As at 30 June 2021 the Group had issued £4,600,000 *(2019: £nil)* of convertible loan instruments via the British Business Bank's Future Fund. This was a government backed support mechanism initiated during the Pandemic which 1,190 companies took up. The instrument matures after 3 years and interest accrues at 8%. As at 30 June 2021 this had a carrying value of £5,104,000 *(2019: £nil)*. 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. Subject to contingent factors a 100% redemption premium could fall due and so that cost is accrued across the life of the instrument. If the loan converts prior to maturity that cost would in effect be reversed.

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.

Notes *(continued)*

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

	Currency	Nominal interest rate	Year of maturity	Nominal value 2021 £000	Carrying amount 2021 £000	Nominal value 29 December 2019 £000	Carrying amount 29 December 2019 £000
Secured bank loan	GBP	LIBOR +2.5%	2025	251	251	278	278
Other secured loan	GBP	7.5%	2020	-	-	200	200
Other secured loan	GBP	7.5%	2021	-	-	925	925
Secured Convertible loan	GBP	8-12%	2022	5,483	4,982	3,862	3,862
Right of use leases	GBP	Various	Range	1,076	1,076	454	454
Future Fund Convertible Loan	GBP	8%	2023	4,600	5,104	-	-
				11,410	11,413	5,719	5,719

Note that the principal amount of the Future Fund convertible loan was £4.6m. The instrument accrues interest at 8% and if carried to maturity could, under certain circumstances, result in a redemption premium of 100% of the principal (£4.6m) 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 2021.

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

Changes in liabilities from financing activities	Loans and borrowings £000	Lease liabilities £000	Total £000
Balance at 30 December 2019	5,265	749	6,014
Changes from financing cash flows			
Proceeds from loans and borrowings	4,600	-	4,600
Repayment of borrowings	(1,125)	-	(1,125)
Interest paid	(461)	(269)	(730)
Total changes from financing cash flows	3,014	(269)	2,745
Other changes			
New finance leases	-	365	365
Interest expense	2,782	231	3,013
Recognition of Embedded Derivative	(724)	-	(724)
Total other changes	2,058	596	2,654
Balance at 30 June 2021	**10,337**	**1,076**	**11,413**

Notes *(continued)*

15 Trade and other payables

	30 June 2021 £000	29 December 2019 £000
Current		
Trade payables	**926**	468
Other payables due to related parties	**4**	9
Other payables and accrued expenses	**2,026**	1,163
Deferred income – Memberships	**196**	231
Deferred government grants	**-**	12
	3,152	1,883

	30 June 2021 £000	29 December 2019 £000
Non-current liabilities		
Deferred income – Memberships	**765**	877
Deferred government grants	**171**	34
	936	911

Analysis of contract liabilities with customers

	30 June 2021 £000	29 December 2019 £000
Opening balance	**1,108**	1,265
New memberships purchased in the year	**272**	100
Revenue recognised in the year	**(419)**	(257)
Closing balance	**961**	1,108

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 £52,452 *(2019: £69,128)*.

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.

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

Notes *(continued)*

16 Employee benefits *(continued)*

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

	Weighted average exercise price 2020 £	**Number of options 2020**	Weighted average exercise price 2019 £	Number of options 2019
Outstanding at the beginning of the year	**1.37**	**1,663,696**	1.20	739,500
Forfeited during the year	**1.31**	**269,000**	(1.20)	(42,500)
Exercised during the year	**-**	**-**	-	-
Granted during the year	**1.50**	**77,000**	1.50	966,696
Lapsed during the year	**-**	**-**	-	-
Outstanding at the end of the year	**1.37**	**1,471,696**	1.37	1,663,696
Exercisable at the end of the year	**1.37**	**1,471,696**	1.37	1,663,696

The weighted average share price at the date of exercise of share options exercised during the year was £1.37 *(2019: £1.37)*.

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

The fair value of services received in return for share options granted were measured by reference to the fair value of share options granted. Measurement inputs and assumptions were as set out below.

	30 June 2021	29 December 2019
Fair value at grant date	£0.33	£0.33
Weighted average share price	£1.37	£1.37
Exercise price	£1.20-£1.50	£1.20-£1.50
Expected volatility (expressed as 30% using the black Scholes model	30%	30%
Option life (expressed as weighted average life using the black Scholes model)	3-5	3-5
Expected dividends	0%	0%
Risk-free interest rate (based on national government bonds)	0.5%	0.5%

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

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

Notes *(continued)*

16 Employee benefits *(continued)*

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

	18 months ended 30 June 2021 £000	12 months ended 29 December 2019 £000
Equity settled share-based payment expense	**52**	83

17 Capital and reserves

Share capital

	30 June 2021 £000	29 December 2019 £000
At beginning of year	**564**	466
Issued for cash	**30**	98
At 30 June 2021 – fully paid	**594**	564

	2021 Number	2019 Number
On issue at start of year	**28,216,631**	23,258,655
Issued	**1,494,147**	4,957,976
On issue at end of period	**29,710,778**	28,216,631

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 1,494,147 £0.02 ordinary shares for a consideration of £2,328,000 satisfied in cash *(2019: 4,957,976 £0.02 ordinary shares for a consideration of £6,823,378 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 2021 £000	**Fair value 30 June 2021 £000**	Carrying amount 29 December 2019 £000	Fair value 29 December 2019 £000
Financial assets at amortised cost				
Cash and cash equivalents	2,330	2,330	3,701	3,701
Trade and other receivables	959	959	776	776
Total financial assets	3,289	3,289	4,477	4,477

	Carrying amount 30 June 2021 £000	**Fair value 30 June 2021 £000**	Carrying amount 29 December 2019 £000	Fair value 29 December 2019 £000
Financial liabilities designated as FVTPL				
Embedded Derivative (Level 3)	**724**	**724**	-	-
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings	**11,413**	**11,412**	6,014	6,014
Trade and other payables	**3,152**	**3,152**	796	796
Total financial liabilities measured at amortised cost	**14,565**	**14,565**	6,810	6,810

	Valuation technique	**Significant unobservable inputs (Level 3 only)**
Financial instruments measured at fair value		
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 thevalue 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 13).

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. An impairment provision of £15,000 is in place in the current year to safeguard against some older items *(2019: £nil)*.

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

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

	30 June 2021 £000	29 December 2019 £000
Trade receivables	**629**	526
Memberships	**64**	120
	693	646

Credit quality of financial assets and impairment losses

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

	30 June Gross 2021 £000	**30 June Impairment 2021 £000**	29 December Gross 2019 £000	29 December Impairment 2019 £000
Not past due	**554**	**-**	631	-
Past due, 0-30 days	**85**	**-**	6	-
Past due, 31-120 days	**69**	**15**	9	-
More than 120 days	**-**	**-**	-	-
	708	**15**	646	-

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 2021					
	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	251	278	56	56	166	-
Lease liabilities	1,076	1,580	194	161	368	857
Other secured loan	-	-	-	-	-	-
Secured convertible loan	4,982	5,990	5,990	-	-	-
Trade and other payables	3,152	3,152	3,152	-	-	-
Future Fund Convertible Loan	5,104	-	-	-	-	-
	14,565	**11,000**	**9,392**	**217**	**534**	**857**

Notes *(continued)*

18 Financial instruments *(continued)*

The Future Fund Convertible Loan contractual cashflows are set at £nil. This is because it is the Directors' best estimate that the instrument is likely convert to equity prior to maturity. In this instance the principal amount of the loan would convert to equity along with the accrued interest (it is at board discretion as to whether this should be paid in cash or in new equity).

			29 December 2019			
	Carrying amount £000	**Contractual cash flows £000**	**1 year or less £000**	**1 to <2years £000**	**2 to <5years £000**	**5years and over £000**
Non-derivative financial liabilities						
Secured bank loans	278	305	61	61	183	-
Finance lease liabilities	749	1,480	213	221	282	764
Other secured loan	1,125	1,265	312	953	-	-
Secured convertible loan	3,862	6,502	184	401	5,917	-
Trade and other payables	1,883	1,883	1,883	-	-	-
	7,897	11,435	2,653	1,636	6,382	764

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. Most export sales are invoiced in Sterling, with some Australian Dollar sales being made as at year end (this amounts to immaterial sales and so fluctuations in exchange rates would not impact the position or performance of the business materially).

During the year purchases of £326,271 were made in Euros *(2019: £738,180)* and at the year-end £5,370 was outstanding in Euros. A significant change in exchange rates (e.g. +/- 10%) would not be enough to have a material impact on the balance sheet at year end.

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

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 £17,000 which is not considered to be a material impact on the financial statements.

Based on year end balances, a 2.5% increase on LIBOR would increase the interest expenses by £10,175, 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 10):

	Land and buildings £000	Motor vehicles £000	Total £000
Balance at 29 December 2019	402	42	444
Additions to right-of-use assets	417	-	417
Depreciation charge for the year	(173)	(22)	(195)
Balance at 30 June 2021	**646**	**20**	**666**

The amount recognised in the income statement were as follows:

	30 June 2021 £000	29 December 2019 £000
Interest on lease liabilities	**231**	49
Expenses relating to short term and low value leases	**-**	2
Depreciation charge for the year	**195**	68
Balance at 30 June 2021	**426**	119

When measuring the lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 31 December 2019. The weighted average rate applied is 10%.

Amounts Recognised in statement of cash flows

	2021 £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 2021 £000	Transactions 2019 £000	Balances at 30 June 2021 £000	Balances at 30 June 2019 £000	Details	Relationship
Goods and Services Received					
31	26	**4**	9	Trout Hotels (Cumbria) Limited	Common Directorships NJ Mills
45	40	**-**	-	Comhar Capital Limited	Common Directorship Craig Wilkinson
Goods and Services Sold					
14	10	**2**	5	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

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 2021	29 December 2019
	£	£
Investment in The Lakes Distillery Company Ireland Limited	1	-
Total carrying amount for equity accounted investees in these financial statements	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 other than its incorporation.