

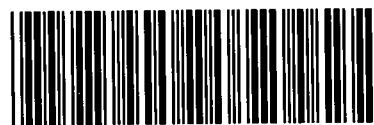
**The Lakes Distillery Company plc**

**Annual report and financial statements**

**Registered number 07769363**

**30 June 2023**

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## Strategic Report

This Strategic Report has been prepared for The Lakes Distillery Company plc for the financial period ended 30 June 2023. We are presenting Group and Company accounts but as in previous years it should be noted that there have been no transactions in our Irish subsidiary and so the results presented here reflect the trading of The Lakes Distillery Company plc.

### Review of the business

The Company distils and distributes a range of spirits, including a flagship single malt whisky, and operates a Brand Home in the Lake District National Park, comprising of a distillery tour facility, shop and bistro, which opened to the public in December 2014.

At the core of the Company's business is The Lakes Single Malt Whisky brand, which was launched in 2019 and participates in the global Luxury Dark Spirits category. This attractive category is predicted by IWSR (International Wine & Spirit Research) to grow from 3.5m 9l case equivalents in 2022 to 4.9m 9l case equivalents in 2027.

The Directors are confident in the potential of The Lakes Single Malt Whisky brand to establish a meaningful position in the Luxury Dark Spirits category. As a 'New World' single malt whisky, The Lakes has quickly proved itself to be a credible brand, winning the coveted title of 'World's Best Single Malt Whisky' in 2022 and achieving high levels of visibility in some of London's most premium bars and restaurants. During 2023, we have been honoured with a further series of international accolades, including Gold Medals for The Whiskymaker's Editions Infinity (International Spirits Challenge) and The One Sherry Cask Finished (Tokyo Whisky & Spirits Competition - TWSC), a Grand Gold Medal at the 25th Spirits Selection by Concours Mondial de Bruxelles for Whiskymaker's Reserve No.7, the latest edition of our signature Single Malt whisky and, in recognition of our distillery experience, being crowned 'Best World Whisky Distillery' (TWSC).

During 2023, former Lead Whiskymaker at The Macallan, Sarah Burgess, joined the Company as Whiskymaker with a brief to continue to produce a range of exciting whiskies with layers of flavour, a proposition for which The Lakes is becoming well-known. The Company has made a significant investment in high quality oak casks and currently has over 6,000 maturing casks of single malt whisky in its warehouses. The Company has recently increased production capacity through the installation of new fermentation washbacks.

The increased focus on Single Malt Whisky within the Company's business is creating a period of transition as our revenue mix increasingly shifts from white spirits and Brand Home revenues into whisky, and from UK to international.

As part of this transition, on 1 July 2023 the directors were delighted to welcome a new Chief Executive Officer, James Pennefather, into the business. Having worked in the premium spirits industry for more than 20 years, he brings a wealth of international commercial, operational, and leadership experience amassed by building brands for global spirits companies, having spent the last nine years in a managing and regional director roles across the Indian subcontinent, the Middle East and Africa. With five generations of family ties to the Lake District, James is very proud of his Cumbrian roots.

This has meant that Nigel Mills, one of our co-Founders and CEO until 30 June 2023, has now transitioned into a Non-executive director role and so stays with the business to support our next phase of growth. Together with Paul Currie and the team, Nigel has built The Lakes Distillery from the ground up and helped to inspire the regeneration of the English whisky industry. The board of directors extend their thanks to Nigel and are delighted that he will continue to support both James and the team in his new role as a non-executive board director.

Given the nature of whisky distilling and maturation, raising capital to lay down whisky stocks for the future is an essential part of our business model. Following an equity raise that closed in September 2022 we have been able to move to increased single malt production levels. During the calendar year 2022 we produced 202,000 Original Litres of Alcohol (OLA), a 48% increase versus our previous annual capacity of 135,000 OLA. During the calendar year of 2023 we expect to move to 250,000 OLA. This is a significant advance for the company in terms of creating future value for the business and means that even as we increase our sales volumes our single malt inventory will continue to grow over the medium term.

## Strategic Report *(continued)*

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

As a result of the equity raise the convertible loan known as Future Fund was successfully converted from debt to equity on 2 November 2022. This has resulted in the recognition of the previous carrying amount of the loan as equity and the reversal of the previously accrued redemption premium. The reversal of the redemption premium has resulted in a £2,700,000 credit to the P&L during the year. As a result finance charges for the year show a credit of £1,046,000 (2022: £2,905,000 debit). The conversion of this instrument during the year was a key strategic target and it has contributed to a significantly improved balance sheet with net assets increasing to £8,639,000 (2022: £3,940,000).

### Key performance indicators

The following KPIs are relevant to understanding the business performance for the 12 month period to June 2023.

	2023	2022
	£000	£000
Gross Revenue	7,227	7,720
Net Revenue	5,799	5,904
Gross profit	3,814	3,700
Gross profit % (net revenue)	65.8%	62.7%
Distillery Tours (number)	15,224	21,114
Bistro Covers (number)	29,284	39,475
Single Malt Laydown (Annual OLA)	224,000	188,000
Maturing Single Malt Inventory (Total OLA)	926,000	773,400

From the KPIs above we can see that 2023 was a challenging year. With tough economic conditions in our core UK market and a delayed launch in the US, topline revenue growth underperformed against expectations and marginally declined vs. 2022 by 1.8%. The Brand Home KPIs above particularly demonstrate how difficult trading conditions in the UK have been with the declines seen here being broadly in line with the data for paid for attractions in Cumbria across a similar period.

However, it was a year of transition and consolidation for the business as we established the infrastructure to deliver the international expansion for our single malt whisky which is the next phase of growth. Within the Net revenue decline we saw an increase in global single malt net revenue of 57% and an increase in Export net revenue of 53%. As a result, although net revenue declined, we saw an increase in total spirits net revenue of 6% (revenue excluding Bistro and Tour revenue at our brand home). Owing to the increased single malt sales we have seen a positive improvement in gross profit % delivered, growing from 62.7% to 65.8%.

We have also seen a marked increase in single malt production. Prior to the calendar year 2022, maximum production had been 135,000 OLA p.a. (Original Litres of Alcohol). During the 12 months to June 2022, we delivered 188,000 OLA and we are pleased to report our highest ever 12-month production period at 224,000 OLA for June 2023. This takes total inventory of maturing single malt to 926,000 OLA which after evaporation and operational losses we would expect to yield 1.8m 70cl bottles (equivalent to 140,000 9-litre cases).

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

## Strategic Report *(continued)*

### Key performance indicators *(continued)*

#### Covenants and Classification of Lending

As a result of the difficult trading conditions at the end of June 2023 the company had breached its lending covenants which required it to achieve a pre-specified EBITDA result for 2023. As a result, loans which would have ordinarily been recognised as non-current have been recognised as current at 30 June 2023. Subsequent to the year-end the covenants were renegotiated with lenders and were reset. If the loans had had been recognised as non-current it would reduce current liabilities on the balance sheet by £15,353,000.

#### 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 (distributors, 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. No impairment provision is in place as no older items exist to require a safeguard against (2022: 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 (2022: nil).

##### *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.

## Strategic report (continued)

### 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 secured loan and working capital facility, as shown in note 18.

### Future developments

The Directors expect some element of uncertainty as the UK and global economies continue to adjust to a high inflation and high interest rate economy. Although forecasting the impact of inflation or interest rates 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 2023, particularly as we are able to release increasing amounts of single malt whisky and continue to enter new export territories. In addition, we continue to invest in our sales and marketing team in order to capitalise on our growing brand presence and continued demand for premium spirits.

### Going Concern

The financial statements have been prepared on a going concern basis notwithstanding that the Group has reported a loss before tax of £1,238,000 and a net cash outflow from operating activities of £4,095,000. The directors consider this to be appropriate for the following reasons.

The Group had cash at bank of £541,000 as at 30 June 2023 and funds its operations and working capital through a combination of bank and other loans, working capital facilities and equity raises. As at the balance sheet date the Group had cash and available working capital facilities of £1,546,000 (unaudited). The Group successfully refinanced its secured convertible loan on 18 July 2022 with the new term loan not being due for 5 years. Combined with the Group's existing asset backed lending facility the Group had significantly improved its balance sheet following this refinancing and the conversion of the Future Fund unsecured convertible loan to equity.

As at June 2023 the Company had breached its lending covenant relating to EBITDA on the refinanced secured loan (and due to a cross default clause also the working capital facility) meaning lending has been shown as current liabilities on the balance sheet. As at the date of this report the company has successfully renegotiated the covenant terms of this loan and it expects the secured loan to be classified as non-current in the 30 June 2024 annual report.

During October 2023 the company entered into a new £2,000,000 5-year term, secured loan and subject to finalising plans to increase single malt production, intends to raise further equity during 2024. Further information on this loan can be found in note 23. Therefore, as at the date of this report the company had cash and available facilities totalling £2,405,000 (unaudited).

## Strategic report (continued)

The directors have prepared a cashflow forecast covering at least 12 months from the date of approval of these financial statements. Specifically, they have considered a base case scenario which models plans for achieving sales growth through this period and a planned increase in single malt whisky production. They have also considered a severe but plausible downside scenario which assumes a slowdown in sales and profit growth across all business units in both the UK and abroad. This downside has also included a severe but plausible increase in the Bank of England base rate which will increase cost of debt servicing. Mitigating actions, including reducing or halting the increase in single malt whisky production, the slowing of marketing investment plans and future personnel hires, were also considered.

Both the base and downside forecasts indicate that the Group would require the renewal of its working capital facility which carries a current term ending November 2024, and further funding in the forecast period, either from its existing lenders or from other sources. No agreement is in place for the renewal of the facility or the provision of this additional funding at the date of approving these financial statements. Whilst the directors are confident that both the renewal of the working capital facility and the additional funding could be obtained, they acknowledge that there can be no certainty of this, and that the absence of further commitments in this respect 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 availability of future funding and renewal of existing 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 Company 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 inappropriate.

By order of the board



**David Robinson**  
*Chief Financial Officer*

Low Barkhouse Farm,  
Setmurthy,  
Cockermouth,  
Cumbria,  
United Kingdom  
NE3 4NB

11 December 2023

## Directors' Report

The Directors present their report and audited financial statements for the period ended 30 June 2023.

### Principal activity

The Company distils and distributes a range of spirits, including a flagship single malt whisky, and operates a Brand Home in the Lake District National Park, which opened to the public in December 2014.

### Corporate Governance

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

#### Audit Committee

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

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

The non-executive Directors who served as members of the Audit Committee in the period were: Richard Hutton (Chairman), Paul Neep, Tim Farazmand and Craig Wilkinson. On 1 July 2023 Nigel Mills joined the committee following his transition into a non-executive role. 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 2023 financial period, accounting judgements and valuation techniques relating to convertible loan instruments and the acquisition of the distillery property. The clarity of disclosure of financial performance was also considered and 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 year ended 30 June 2023 and the external audit thereof. Particular scrutiny was given to the basis for making the going concern assumption, accounting for convertible loan instruments and disclosures on covenant compliance. The external Auditor's Report on audit findings was considered and the committee held a closed session with the external auditor in the absence of management.

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

#### Remuneration Committee

The Remuneration Committee, which convened several times during the period, supports the governance of the Group by focussing on the below key responsibilities:

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



## **Directors' report** *(continued)*

### **Remuneration Committee** *(continued)*

The Remuneration Committee comprises of Paul Neep (Chair), Tim Farazmand, Richard Hutton and Craig Wilkinson with Andrew Davidson as secretary to the Committee. On 1 July 2023 Nigel Mills joined the committee following his transition into a non-executive role. The Committee normally invites the CEO to attend its meetings.

The key elements of Executive pay are:

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

### **Results & dividends**

The loss for the period was £1,139,000 (2022: £4,877,000). The Directors do not recommend the payment of a dividend (2022: £nil).

### **Directors**

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

Nigel Mills CBE  
David Robinson  
Tim Farazmand  
Richard Hutton  
Paul Neep  
Craig Wilkinson  
Kirsten Taylor  
Andrew Davison OBE (Group Secretary)  
James Pennefather (Appointed 1 July 2023)

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 (2022: £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 2.

## **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



**David Robinson**  
*Chief Financial Officer*

Low Barkhouse Farm,  
Setmurthy,  
Cockermouth,  
Cumbria,  
United Kingdom  
CA13 9SJ

11 December 2023

## **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.



**KPMG LLP**

Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX  
United Kingdom

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

**Opinion**

We have audited the financial statements of The Lakes Distillery Company Plc ("the Company") for the year ended 30 June 2023 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 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

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

**Material uncertainty related to going concern**

We draw attention to note 1 to the financial statements which indicates that according to the base case and severe but plausible forecasts prepared by the directors, the group and parent company will require further funding within the going concern period and there is no agreement currently in place for the provision of this funding. Further, the renewal of the working capital facility which carries a current term ending November 2024 has not been agreed. In the absence of this agreement, there can be no certainty that the group will not be required to repay the facility at that time. 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's and the 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 a material uncertainty related to going concern exists.

Our conclusion 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, in particular the risk that Group management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the non-complex revenue transactions which involve minimal levels of management judgment are not considered to provide significant opportunities for fraudulent revenue recognition.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on high risk criteria and comparing the identified entries to supporting documentation. These included journals posted to revenue with unusual pairings, journals posted to cash and loan accounts with unusual pairings, and journals posted to inventory with unusual income statement pairings.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

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

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

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

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

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, and employment law, regulatory capital and liquidity, and certain aspects of company legislation 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.

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

### **Directors' responsibilities**

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

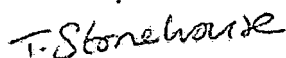
### **Auditor's responsibilities**

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

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



**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  
11 December 2023

**Consolidated Income Statement**  
*for the 12 month period 30 June 2023*

	<i>Note</i>	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
<b>Gross Revenue</b>	2	7,227	7,720
Duty		(1,428)	(1,816)
<b>Net Revenue</b>		<b>5,799</b>	<b>5,904</b>
Cost of sales		(1,985)	(2,204)
<b>Gross profit</b>		<b>3,814</b>	<b>3,700</b>
Other operating income	3	23	23
Distribution expenses		(204)	(190)
Administrative expenses		(5,917)	(5,505)
<b>Operating loss</b>		<b>(2,284)</b>	<b>(1,972)</b>
Financial expenses	7	1,046	(2,905)
<b>Loss before tax</b>		<b>(1,238)</b>	<b>(4,877)</b>
Taxation	8	99	-
<b>Loss for the year</b>		<b>(1,139)</b>	<b>(4,877)</b>

**Consolidated Statement of Other Comprehensive Income**  
*for the 12 month period 30 June 2023*

	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
<b>Loss for the year</b>	<b>(1,139)</b>	<b>(4,877)</b>
Other comprehensive income	-	-
<b>Total comprehensive expense for the year</b>	<b>(1,139)</b>	<b>(4,877)</b>



## Balance Sheets

	Note	Group 30 June 2023 £000	Company 30 June 2023 £000	Group 30 June 2022 £000	Company 30 June 2022 £000
<b>Non-current assets</b>					
Property, plant and equipment	9	14,106	14,106	11,087	11,087
Intangible assets	10	250	250	112	112
Investment in Subsidiaries	22	-	-	-	-
		<u>14,356</u>	<u>14,356</u>	<u>11,199</u>	<u>11,199</u>
<b>Current assets</b>					
Inventories	11	11,104	11,104	9,135	9,135
Trade and other receivables	12	1,027	1,027	884	884
Cash and cash equivalents	13	541	541	1,295	1,295
		<u>12,672</u>	<u>12,672</u>	<u>11,314</u>	<u>11,314</u>
<b>Total assets</b>		<u>27,028</u>	<u>27,028</u>	<u>22,513</u>	<u>22,513</u>
<b>Current liabilities</b>					
Interest-bearing loans and borrowings	14	(15,550)	(15,550)	(6,140)	(6,140)
Trade and other payables	15	(1,527)	(1,527)	(2,099)	(2,099)
Derivative Financial Liability	18	-	-	(109)	(109)
		<u>(17,077)</u>	<u>(17,077)</u>	<u>(8,348)</u>	<u>(8,348)</u>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	14	(792)	(792)	(9,486)	(9,486)
Deferred government grants	15	(124)	(124)	(149)	(149)
Deferred Income – Memberships	15	(396)	(396)	(590)	(590)
		<u>(1,312)</u>	<u>(1,312)</u>	<u>(10,225)</u>	<u>(10,225)</u>
<b>Total liabilities</b>		<u>(18,389)</u>	<u>(18,389)</u>	<u>(18,573)</u>	<u>(18,573)</u>
<b>Net assets</b>		<u>8,639</u>	<u>8,639</u>	<u>3,940</u>	<u>3,940</u>
<b>Equity</b>					
Share capital	17	758	758	651	651
Share premium		18,626	18,626	12,952	12,952
Share based payment reserve		403	403	346	346
Retained earnings		(11,148)	(11,148)	(10,009)	(10,009)
<b>Total equity</b>		<u>8,639</u>	<u>8,639</u>	<u>3,940</u>	<u>3,940</u>

These financial statements were approved by the board of Directors on 11 December 2023 and were signed on its behalf by:



**David Robinson**  
Chief Financial Officer

## Group & Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Share based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 30 June 2022	651	12,952	346	(10,009)	3,940
<b>Total comprehensive expense for the year</b>					
Loss for the year	-	-	-	(1,139)	(1,139)
<b>Total comprehensive expense for the year</b>	-	-	-	(1,139)	(1,139)
<b>Contributions by and distributions to owners</b>					
Issue of shares	107	5,674	-	-	5,781
Equity-settled share-based payment transactions	-	-	57	-	57
<b>Total contributions by and distributions to owners</b>	107	5,674	57	-	5,838
<b>Balance at 30 June 2023</b>	<b>758</b>	<b>18,626</b>	<b>403</b>	<b>(11,148)</b>	<b>8,639</b>

## Group & Company Statement of Changes in Equity

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

## Cash Flow Statements

for the 12-month period ended 30 June 2023

		Group	Company	Group	Company
	Note	2023 £000	2023 £000	2022 £000	2022 £000
<b>Cash flows from operating activities</b>					
Loss for the year		(1,139)	(1,139)	(4,877)	(4,877)
Adjustments for:					
Depreciation and amortisation	9, 10, 14	980	980	818	818
Financial expense	7	(1,046)	(1,046)	2,905	2,905
Deferred government grant		(23)	(23)	(23)	(23)
Equity settled share-based payment expenses	16	57	57	173	173
Loss/(Profit) on equipment disposals		9	9	-	-
Tax		(99)	(99)	-	-
		(1,261)	(1,261)	(1,004)	(1,004)
(Increase)/Decrease in trade and other receivables		(143)	(143)	80	80
Increase in inventories		(1,969)	(1,969)	(2,520)	(2,520)
(Decrease)/Increase in trade and other payables		(790)	(790)	(694)	(694)
Cash generated from operations		(2,902)	(2,902)	(3,134)	(3,134)
Tax Received		68	68	-	-
<b>Net cash outflow from operating activities</b>		(4,095)	(4,095)	(4,138)	(4,138)
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	9	(3,577)	(3,577)	(1,046)	(1,046)
Acquisition of other intangible assets	10	(172)	(172)	(25)	(25)
<b>Net cash outflow from investing activities</b>		(3,749)	(3,749)	(1,071)	(1,071)
<b>Cash flows from financing activities</b>					
Proceeds from the issue of share capital	17	1,224	1,224	3,986	3,986
Interest paid	14	(1,237)	(1,237)	(468)	(468)
Proceeds from lending	14	13,283	13,283	981	981
Repayment of borrowings	14	(5,915)	(5,915)	(56)	(56)
Repayment of lease liabilities		(265)	(265)	(269)	(269)
<b>Net cash inflow from financing activities</b>		7,090	7,090	4,174	4,174
Net (decrease) in cash and cash equivalents		(754)	(754)	(1,035)	(1,035)
Cash and cash equivalents at the start of period		1,295	1,295	2,330	2,330
<b>Cash and cash equivalents at the end of period</b>	13	541	541	1,295	1,295

## 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 Low Barkhouse Farm, Setmurthy, Cockermouth, Cumbria, CA13 9SJ. The Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards ("IFRSs").

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

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

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2 Going concern

The financial statements have been prepared on a going concern basis notwithstanding that the Group has reported a loss before tax of £1,238,000 and a net cash outflow from operating activities of £4,095,000. The directors consider this to be appropriate for the following reasons.

The Group had cash at bank of £541,000 as at 30 June 2023 and funds its operations and working capital through a combination of bank and other loans, working capital facilities and equity raises. As at the balance sheet date the Group had cash and available working capital facilities of £1,546,000 (unaudited). The Group successfully refinanced its secured convertible loan on 18 July 2022 with the new term loan not being due for 5 years. Combined with the Group's existing asset backed lending facility the Group had significantly improved its balance sheet following this refinance and the conversion of the Future Fund unsecured convertible loan to equity.

As at June 2023 the Company had breached its lending covenant relating to EBITDA on the refinanced secured loan (and due to a cross default clause also the working capital facility) meaning lending has been shown as current liabilities on the balance sheet. As at the date of this report the company has successfully renegotiated the covenant terms of this loan and it expects the secured loan to be classified as non-current in the 30 June 2024 annual report.

During October 2023 the company entered into a new £2,000,000 5-year term, secured loan and subject to finalising plans to increase single malt production, intends to raise further equity during 2024. Further information on this loan can be found in note 23. Therefore, as at the date of this report the company had cash and available facilities totalling £2,405,000 (unaudited).

The directors have prepared a cashflow forecast covering at least 12 months from the date of approval of these financial statements. Specifically, they have considered a base case scenario which models plans for achieving sales growth through this period and a planned increase in single malt whisky production. They have also considered a severe but plausible downside scenario which assumes a slowdown in sales and profit growth across all business units in both the UK and abroad. This downside has also included a severe but plausible increase in the Bank of England base rate which will increase cost of debt servicing. Mitigating actions, including reducing or halting the increase in single malt whisky production, the slowing of marketing investment plans and future personnel hires, were also considered.

Both the base and downside forecasts indicate that the Group would require the renewal of its working capital facility which carries a current term ending November 2024, and further funding in the forecast period, either from its existing lenders or from other sources. No agreement is in place for the renewal of the facility or the provision of this additional funding at the date of approving these financial statements. Whilst the directors are confident that both the renewal of the working capital facility and the additional funding could be obtained, they acknowledge that there can be no certainty of this, and that the absence of further commitments in this respect gives rise to a material uncertainty.

Notes (*continued*)

**1 Accounting policies (*continued*)**

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, the uncertainties around the availability of future funding and renewal of existing 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 Company 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 inappropriate.

**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

	30 June 2023 £000	30 June 2022 £000
Business to consumer sales	2,601	2,811
Business to business sales	4,464	4,557
Membership income	162	352
	<hr/>	<hr/>
Total Gross revenue	7,227	7,720
	<hr/>	<hr/>

## Notes (continued)

### 2 Revenue (continued)

#### Sales by location

	30 June 2023 £000	30 June 2022 £000
Asia	557	534
Europe	671	347
US & Canada	201	-
ROW	84	59
United Kingdom	5,714	6,780
	<hr/>	<hr/>
Total gross revenue	7,227	7,720
	<hr/>	<hr/>

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

	30 June 2023 £000	30 June 2022 £000
Government grants	23	23
	<hr/>	<hr/>
	23	23
	<hr/>	<hr/>

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:

	30 June 2023 £000	30 June 2022 £000
Audit of these financial statements	63	49
Amounts receivable by the Group's auditor and its associates in respect of:		
Taxation compliance services	5	5
Other tax advisory services	-	-
Other assurance services	-	-
	<hr/>	<hr/>

## 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	
	30 June 2023	30 June 2022
<b>Staff numbers</b>		
Staff	63	68
Directors	8	8
	<hr/> 71	<hr/> 76
	<hr/> <hr/>	<hr/> <hr/>
	£000	£000
<b>Staff costs</b>		
Wages and salaries	2,424	2,414
Share based payments (see note 16)	57	173
Social security costs	245	236
Contributions to defined contribution plans	141	127
	<hr/> 2,867	<hr/> 2,950
	<hr/> <hr/>	<hr/> <hr/>

In the period, £nil (2022: £2,300) 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

	30 June 2023	30 June 2022
	£000	£000
Directors' remuneration for qualifying services	529	535
Contributions to defined contribution pension schemes	72	89
Share based payments	32	28
	<hr/> 633	<hr/> 652
	<hr/> <hr/>	<hr/> <hr/>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £172,000 (2022: £189,000), and Group pension contributions of £34,000 (2022: £26,000) were made to a money purchase scheme on his behalf.

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

## Notes (continued)

### 7 Finance expense

	30 June 2023 £000	30 June 2022 £000
Interest payable loans and borrowings	1,651	1,206
Interest on lease liabilities	69	174
Fair value movement of embedded derivative	(109)	(615)
Effective interest/(reversal) on convertible loan	(2,657)	2,140
	<hr/>	<hr/>
Total finance (credit)/expense	(1,046)	2,905
	<hr/>	<hr/>

### 8 Taxation

#### Recognised in the income statement

	30 June 2023 £000	30 June 2022 £000
<i>Current tax (credit)/expense</i>		
Current year	(40)	-
Adjustments for prior years	(59)	-
	<hr/>	<hr/>
Current tax (credit)/expense	(99)	-
	<hr/>	<hr/>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	-	-
Adjustments for prior years	-	-
Effect of rate changes	-	-
	<hr/>	<hr/>
Deferred tax expense	-	-
	<hr/>	<hr/>
Total tax (credit)/expense	(99)	-
	<hr/>	<hr/>

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

## Notes (continued)

### 8 Taxation (continued)

#### Tax recognised directly in equity

	30 June 2023 £000	30 June 2022 £000
Current tax recognised directly in equity	-	-
Deferred tax recognised directly in equity	-	-
	<hr/>	<hr/>
Total tax recognised directly in equity	-	-
	<hr/>	<hr/>

#### Reconciliation of effective tax rate

	30 June 2023 £000	30 June 2022 £000
Loss for the year	(1,139)	(4,877)
Total tax (credit)/expense	(99)	-
	<hr/>	<hr/>
Loss excluding taxation	(1,238)	(4,877)
Tax using the UK corporation tax rate of 20.50% (2022: 19%)	(253)	(926)
Impact of non-deductible expenses	291	500
Income not taxable	(571)	(5)
Current year losses for which no deferred tax asset was recognised	582	565
Fixed Asset Differences	32	-
Additional deduction for R&D expenditure	(32)	-
Surrender of tax losses for R&D tax credit	16	-
Adjustments in respect of previous periods	(59)	-
Remeasurement of deferred tax for changes in tax rates	(105)	(134)
	<hr/>	<hr/>
Total tax expense	(99)	-
	<hr/>	<hr/>

#### Factors that may affect future current and total tax charges

At the period end, there was unrecognised deferred tax assets of £3,990,000 (2022: £3,407,000) in respect of unutilised tax losses. These have not been recognised as their recovery cannot be determined with reasonable certainty.

On 1 April 2023 the UK corporation tax rate increased from 19% to 25% resulting in a blended tax rate for the year of 20.5%.



## 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**

	June 2022	Recognised in income	June 2023
	£000	£000	£000
Accelerated capital allowances	(1,536)	(95)	(1,631)
Short term differences, Tax losses and other deductions	1,536	95	1,631
	<u>          </u>	<u>          </u>	<u>          </u>
	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>

## Notes (continued)

### 9 Property, plant and equipment

	Computer and office equipment	Motor vehicles	Leasehold developme nts	Fixtures and fittings	Freehold land and Buildings	Plant and machinery	Casks	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost</b>								
Balance at 1 July 2021	209	158	6,666	-	607	3,922	1,862	13,424
Additions	15	3	65	-	1	301	661	1,046
Recognition of right of use assets	-	-	-	-	-	-	-	-
Disposals	(50)	(104)	(24)	-	-	(34)	-	(212)
<b>Balance at 30 June 2022</b>	<b>174</b>	<b>57</b>	<b>6,707</b>	<b>-</b>	<b>608</b>	<b>4,189</b>	<b>2,523</b>	<b>14,258</b>
Balance at 30 June 2022	174	57	6,707	-	608	4,189	2,523	14,258
Additions	40	-	74	89	2,884	62	428	3,577
Recognition of right of use assets	-	10	353	236	-	-	-	599
Reclassification	-	-	(1,212)	961	-	251	-	-
Disposals	-	(20)	(428)	(84)	-	(24)	(6)	(562)
<b>Balance at 30 June 2023</b>	<b>214</b>	<b>47</b>	<b>5,494</b>	<b>1,202</b>	<b>3,492</b>	<b>4,478</b>	<b>2,945</b>	<b>17,872</b>
<b>Depreciation</b>								
Balance at 1 July 2021	145	112	1,231	-	70	761	245	2,564
Charge for the year	23	28	393	-	12	229	102	787
Disposals	(45)	(94)	(16)	-	-	(25)	-	(180)
<b>Balance at 30 June 2022</b>	<b>123</b>	<b>46</b>	<b>1,608</b>	<b>-</b>	<b>82</b>	<b>965</b>	<b>347</b>	<b>3,171</b>
Balance at 1 July 2022	123	46	1,608	-	82	965	347	3,171
Charge for the year	19	8	246	115	57	319	133	897
Reclassification	-	-	(537)	502	-	35	-	-
Disposals	-	(20)	(173)	(83)	-	(24)	(2)	(302)
<b>Balance at 30 June 2023</b>	<b>142</b>	<b>34</b>	<b>1,144</b>	<b>534</b>	<b>139</b>	<b>1,295</b>	<b>478</b>	<b>3,766</b>
<b>Net book value</b>								
At 30 June 2021	64	46	5,435	-	537	3,161	1,617	10,860
At 30 June 2022	51	11	5,099	-	526	3,224	2,176	11,087
<b>At 30 June 2023</b>	<b>72</b>	<b>13</b>	<b>4,350</b>	<b>668</b>	<b>3,353</b>	<b>3,183</b>	<b>2,467</b>	<b>14,106</b>

## Notes (continued)

### 10 Intangible assets

	Patents and trademarks £000	Website £000	Software £000	Total £000
<b>Cost</b>				
Balance at 30 June 2021	104	86	82	272
Additions	24	-	1	25
Disposals	-	(65)	(10)	(75)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 30 June 2022</b>	<b>128</b>	<b>21</b>	<b>73</b>	<b>222</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Balance at 30 June 2022	128	21	73	222
Additions	7	145	20	172
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 30 June 2023</b>	<b>135</b>	<b>166</b>	<b>93</b>	<b>394</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Amortisation</b>				
Balance at 30 June 2021	32	73	48	153
Amortisation for the year	12	5	14	31
On disposals	-	(65)	(9)	(74)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 30 June 2022</b>	<b>44</b>	<b>13</b>	<b>53</b>	<b>110</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Balance at 30 June 2022	44	13	53	110
Amortisation for the year	13	10	11	34
On disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 30 June 2023</b>	<b>57</b>	<b>23</b>	<b>64</b>	<b>144</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net Book Value</b>				
At 30 June 2021	72	13	24	119
At 30 June 2022	84	8	20	112
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2023</b>	<b>78</b>	<b>143</b>	<b>29</b>	<b>250</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 11 Inventories

	30 June 2023 £000	30 June 2022 £000
Maturing inventories	7,808	5,929
Raw materials and packaging	1,016	844
Finished goods	2,280	2,362
	<u>11,104</u>	<u>9,135</u>

During the period inventory with a value of £nil (2022: £42,600) was written off. Eligible inventory has a working capital facility secured against this. The balance of facility applicable to inventory as at 30 June 2023 was £6,652,000 (2022: £1,431,000).

### 12 Trade and other receivables

	30 June 2023 £000	30 June 2022 £000
<i>Due within one year</i>		
Trade receivables	694	663
Membership debtors	9	12
Other trade receivables	1	2
Prepayments	323	207
	<u>1,027</u>	<u>884</u>

Membership debtors relate to the Founders & Quatrefoil memberships which are committed but not due. Eligible trade debt has a working capital facility secured against this. The balance of facility applicable to trade debt as at 30 June 2023 was £306,000 (2022: £203,000).

### 13 Cash and cash equivalents

	30 June 2023 £000	30 June 2022 £000
Cash and cash equivalents per balance sheet	541	1,295
Cash and cash equivalents per cash flow statements	<u>541</u>	<u>1,295</u>

## Notes (continued)

### 14 Interest-bearing loans and borrowings

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

	30 June 2023 £000	30 June 2022 £000
<b>Non-current liabilities</b>		
Secured bank loans	-	139
Convertible loans	-	7,244
Lease Liabilities	792	672
Working Capital Facility	-	1,431
	<hr/> 792	<hr/> 9,486
<b>Current liabilities</b>		
Current portion of secured bank loans	-	56
Working Capital Facility	6,958	203
Convertible loan	-	5,721
Secured Loan	8,395	-
Lease Liabilities	197	160
	<hr/> 15,550	<hr/> 6,140

As at 30 June 2022 the Group had issued £4,600,000 of convertible loan instruments via the British Business Bank's Future Fund. This was a government backed support mechanism initiated during the Pandemic. The instrument would have matured after 3 years and interest accrued at 8%. As at 30 June 2022 the loan and accrued interest had a carrying value of £7,244,000. The company carried out a qualifying financing round during 2022 and the loan converted from debt to equity on 2 November 2022 and a result is no longer recognised as debt.

On 18 July 2022 the Group entered into a new financing arrangement that replaced a secured convertible loan which was outstanding. This new £5,750,000, 5 year term loan also facilitated the repayment of a £195,000 secured bank loan. In addition, the lender has also provided £2,600,000 in additional funding to facilitate the purchase of the freehold of the distillery leasehold. This transaction completed on 9th September 2022. This lending has a combination of variable interest rates for both cash interest paid and accrued PIK interest. Cash interest rate has a range of Base Rate + 5%-6% and PIK range is 4%-7%. As a result of the difficult trading conditions at the end of June 2023 the company had breached its lending covenants which required us to achieve pre-specified EBITDA result for 2023. Further information is provided in the Strategic Report and in Note 18.

Per IAS 32 an instrument cannot be classified as an equity instrument if the number of shares which will be delivered upon conversion is variable. The directors have considered this in light of the terms of the instruments in issue as at the balance sheet date and have determined that they should be classified as financial liabilities, although the unsecured convertible loan has subsequently converted to equity.

As at 30 June 2023, the Group had an interest bearing working capital facility in place with no fixed term placed against this facility for repayment and the current minimum period runs to November 2024. As a result of the above covenant breach this lending has been classified as current.

## Notes (continued)

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

	Currency	Nominal interest rate	Year of maturity	Nominal value 30 June 2023 £000	Carrying amount 30 June 2023 £000	Nominal value 30 June 2022 £000	Carrying amount 30 June 2022 £000
Secured bank loan	GBP	LIBOR +2.5%	2025	-	-	195	195
Secured Convertible loan	GBP	8%-12%	-	-	-	5,721	5,721
Secured loan		Base +5% (Cash); 4%- 7% (PIK)	2027	8,350	8,395		
Lease Liabilities	GBP	Various	Range	989	989	832	832
Working Capital Facility	GBP	Base +4%	2024	6,958	6,958	1,634	1,634
Future Fund Convertible Loan	GBP	8%	2023	-	-	4,600	7,244
				<u>16,297</u>	<u>16,342</u>	<u>12,982</u>	<u>15,626</u>

## Notes (continued)

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

<i>Changes in liabilities from financing activities</i>	<b>Loans and borrowings £000</b>	<b>Lease liabilities £000</b>	<b>Total £000</b>
Balance at 30 June 2022	14,794	832	15,626
<i>Changes from financing cash flows</i>			
Proceeds from loans and borrowings	13,284	-	13,284
Repayment of borrowings	(5,915)	-	(5,915)
Repayment of lease liabilities	-	(265)	(265)
Interest paid	(1,207)	(30)	(1,237)
Total changes from financing cash flows	6,162	(295)	5,867
<i>Other changes</i>			
Future Fund Conversion	(7,244)	-	(7,244)
Recognition of lease liabilities	-	598	599
Interest expense	1,641	100	1,741
Lease Disposals	-	(246)	(246)
Total other changes	(5,603)	452	(5,150)
Balance at 30 June 2023	15,353	989	16,342

## Notes (continued)

### 15 Trade and other payables

	30 June 2023 £000	30 June 2022 £000
<b>Current</b>		
Trade payables	732	986
Other payables due to related parties	-	-
Other payables and accrued expenses	633	951
Deferred income – Memberships	162	162
	<u>1,527</u>	<u>2,099</u>
	30 June 2023 £000	30 June 2022 £000
<b>Non-current liabilities</b>		
Deferred income – Memberships	325	487
Deferred government grants	124	149
Deferred VAT - Founders	71	103
	<u>520</u>	<u>739</u>

### Analysis of contract liabilities with customers

	30 June 2023 £000	30 June 2022 £000
Opening balance	649	961
Revenue recognised in the year	(162)	(312)
	<u>487</u>	<u>649</u>

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 £57,000 (2022: £173,000).

#### Share-based payments

During 2017 the Group established a share option scheme for key management personnel. The scheme is based on service and Group performance criteria with options granted during 2017 vesting over a five-year period. During 2020 additional options were granted to key management personnel that vest over a three-year period. During the year none of the options granted were exercised.

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

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

During 2023 the Group established an additional Long Term Incentive Plan (LTIP) share option scheme for key management personnel. The scheme is based on Group performance criteria and service with options granted during January 2023 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.

Specified criteria for these schemes includes net revenue which is disclosed in the Consolidated Income Statement on page 14 and EBITDA. EBITDA targets for share option schemes are measured on an 'adjusted EBITDA' basis. EBITDA for the 12 months to June 2023 was a loss of £1,318,000, with adjusted EBITDA being a loss of £830,000 after adding back £488,000 adjusting items such as non-cash impacting share-based payment expense, internally recognised exceptional (including costs related to fund raising) and R&D tax credit receivable.

The terms and conditions of the grants are as follows:

Grant date / employees entitled	Method of settlement accounting	No. 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	Board approved EBITDA targets to be met with employees remaining in employment or leaving under "good leaver" Conditions.	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	June 2029
Equity Settled award to 5 employees granted by parent on 10 September 2021	Equity	345,455	Board approved with employees remaining in employment or leaving under "good leaver" Conditions	September 2031
Equity Settled award to 5 employees granted by parent in January 2023	Equity	315,746	Board approved with employees remaining in employment or leaving under "good leaver" Conditions	January 2033
Equity Settled award to 1 employees granted by parent in February 2023	Equity	16,672	Board approved with employees remaining in employment or leaving under "good leaver" Conditions	Linked to remaining in Service

## Notes (continued)

### 16 Employee benefits (continued)

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

	Weighted average exercise price 2023 £	Number of options 2023	Weighted average exercise price 2022 £	Number of options 2022
Outstanding at the beginning of the year	1.37	1,817,151	1.37	1,471,696
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Granted during the year	0.02	432,865	0.02	345,455
Lapsed during the year	-	(615,599)	-	-
Outstanding at the end of the year	0.71	1,634,417	1.11	1,817,151
Exercisable at the end of the year	0.71	1,634,417	1.11	1,817,151

The weighted average share price at the date of exercise of share options exercised during the year was £0.71 (2022: £1.11).

The options outstanding at the year end have an exercise price of £0.02, £1.20 or £1.50 and a weighted average contractual life of 9 years.

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

	30 June 2023	30 June 2022
Fair value at grant date	£0.33-£0.72	£0.33-£0.72
Weighted average share price	£0.71	£1.11
Exercise price	£0.02-£1.50	£0.02-£1.50
Expected volatility (expressed as 30% using the black Scholes model)	10%-30%	10%-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%-4.50%	0.5%-1.75%

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

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

## Notes (continued)

### 16 Employee benefits (continued)

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

	12 months ended 30 June 2023 £000	12 months ended 30 June 2022 £000
Equity settled share-based payment expense	57	173

### 17 Capital and reserves

#### Share capital

	30 June 2023 £000	30 June 2022 £000
At beginning of year	651	594
Issued for cash	18	57
Issued on Conversion of Debt Instrument	89	-
At 30 June 2023 – fully paid	758	651

	2023 Number	2022 Number
On issue at start of year	32,557,621	29,710,778
Issued	878,646	2,846,843
Issued on Conversion of Debt Instrument	4,458,532	-
On issue at end of period	37,894,799	32,557,621

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 878,646 £0.02 ordinary shares for a consideration of £1,224,000 satisfied in cash after accounting for relevant commission costs (2022: 2,846,000 £0.02 ordinary shares for a consideration of £3,986,000 satisfied in cash). An additional 4,458,532 £0.02 (2022: nil) ordinary shares were issued on conversion of the principal and accrued interest elements of a convertible debt instrument.

## 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 2023 £000	Fair value 2023 £000	Carrying amount 2022 £000	Fair value 2022 £000
<b>Financial assets at amortised cost</b>				
Cash and cash equivalents	541	541	1,295	1,295
Trade and other receivables	1,027	1,027	884	884
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	1,568	1,568	2,179	2,179
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	Carrying amount 2023 £000	Fair value 2023 £000	Carrying amount 2022 £000	Fair value 2022 £000
<b>Financial liabilities designated as FVTPL</b>				
Embedded Derivative (Level 3)	-	-	109	109
<b>Financial liabilities measured at amortised cost</b>				
Other interest-bearing loans and borrowings	16,342	16,342	15,626	15,626
Trade and other payables	1,527	1,527	2,099	2,099
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities measured at amortised cost	17,869	17,869	17,725	17,725
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Valuation technique	Significant unobservable inputs (Level 3 only)
<b>Financial instruments measured at fair value</b>		
Embedded Derivative within Future Fund Convertible Loan	Binomial Option Calculator	<ul style="list-style-type: none"> <li>- Share Price up and down movements</li> <li>- Expected Conversion Date</li> <li>- Share Price Volatility</li> </ul>

## Notes (continued)

### 18 Financial instruments (continued)

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

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

#### 18 (b) Credit risk

##### Financial risk management

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

The Group has a diversified trade customer base (retailers, wholesalers, online retailers, on trade) and there is limited concentration risk against any one customer given the number of customers the Group supplies. In this context credit risk is based on a customer by customer basis with each account managed against credit limits set using an independent credit rating agency. No impairment provision is in place in the current year to safeguard against some older items (2022: 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;

	2023 £000	2022 £000
Trade receivables	694	663
Memberships	10	12
	<u>704</u>	<u>675</u>

##### Credit quality of financial assets and impairment losses

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

	Gross 2023 £000	Impairment 2023 £000	Gross 2022 £000	Impairment 2022 £000
Not past due	243	-	667	-
Past due, 0-30 days	301	-	4	-
Past due, 31-120 days	151	-	-	-
More than 120 days	9	-	4	-
	<u>704</u>	<u>-</u>	<u>675</u>	<u>-</u>

## 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 liabilities, including estimated interest payments and excluding the effect of netting agreements:

	30 June 2023					
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5years and over £000
<b>Non-derivative financial liabilities</b>						
Lease liabilities	681	908	181	182	181	364
Finance Lease Liabilities	309	382	129	66	62	125
Secured loan	8,395	8,395	8,395	-	-	-
Trade and other payables	1,527	1,527	1,527	-	-	-
Working Capital Facility	6,958	6,958	6,958	-	-	-
	<b>17,869</b>	<b>18,170</b>	<b>17,190</b>	<b>248</b>	<b>243</b>	<b>489</b>

As a result of the difficult trading conditions at the end of June 2023 the company had breached its lending covenants which required us to achieve pre-specified EBITDA result for 2023. As a result, loans which would have ordinarily been recognised as non-current have been recognised as current at 30 June 2023. Subsequent to the year-end the covenants were renegotiated with lenders and were reset. If the loans had have been recognised as non-current it would remove the Secured convertible loan and working capital facility out of the amounts falling due within 1 year shown, reducing that total by £15,353,000.

## Notes (continued)

### 18 Financial instruments (continued)

#### 18 (d) Market risk

##### *Financial risk management*

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

##### **Market risk – Foreign currency risk**

The Group's exposure to foreign currency risk is limited. Casks are sourced from mainland Europe, and to a lesser extent the US, giving rise to Euro and US Dollar exposure. All export sales are invoiced in Sterling.

During the year purchases of £449,000 were made in Euros (2022: £742,000) and at the year-end £29,000 (2022: £30,000) was outstanding in Euros. In USD, purchases of £268,000 were made (2022: £92,000) and at the year-end £nil was outstanding. In the year, the introduction of sales invoicing in foreign currency was introduced. Sales of £118,000 were made in Euros and at the year-end £nil was outstanding. In USD, sales of £214,000 were made and at the year-end £38,000 was outstanding. A significant change in exchange rates (e.g. +/- 10%) would not be enough to have a material impact on the balance sheet at year end.

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

##### **Market risk – Interest rate risk**

At the balance sheet date, the only variable rate interest-bearing financial instruments are the bank loan and asset back lending, as shown in note 14. The Directors consider a reasonably possible change in Bank of England Base Rates to be 0.5% which would increase the interest expense by £75,000 which is not considered to be a material impact on the financial statements.

## Notes (continued)

### 19 Leases

#### *Right-of-use assets*

Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 9):

	<b>Leasehold Developments £000</b>	<b>Motor vehicles £000</b>	<b>Total £000</b>
Balance at 30 June 2022	538	-	538
Additions to right-of-use assets	353	10	363
Depreciation charge for the year	(70)	(2)	(72)
Disposals	(148)	-	(148)
<b>Balance at 30 June 2023</b>	<b>673</b>	<b>8</b>	<b>681</b>

The amount recognised in the income statement were as follows:

	<b>2023 £000</b>	<b>2022 £000</b>
Interest on lease liabilities	69	98
Depreciation charge for the year	73	131
<b>Balance at 30 June 2023</b>	<b>142</b>	<b>229</b>

When measuring the lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 30 June 2023. The weighted average rate applied is 10%.

Amounts Recognised in statement of cash flows

	<b>2023 £000</b>
Total cash outflow for leases	190



## Notes (continued)

### 20 Related parties

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

Transactions		Balances at		Details	Relationship
2023	2022	2023	2022		
£000	£000	£000	£000		
<i>Goods and Services Received</i>					
1	20	-	-	Trout Hotels (Cumbria) Limited	Common Directorships NJ Mills (sold Sept 22)
25	25	-	-	Comhar Capital Limited	Common Directorship Craig Wilkinson
10	-	-	-	The English Whisky Guild	Common Directorship NJ Mills
<i>Goods and Services Sold</i>					
-	14	-	-	Trout Hotels (Cumbria) Limited	Common Directorships NJ Mills (sold Sept 22)

### 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 there are no significant estimates or judgments within these financial statements.

## Notes (continued)

### 22 Investments in subsidiary (Company only)

#### Associates and joint ventures

	30 June 2023 £	30 June 2022 £
Investment in The Lakes Distillery Company Ireland Limited	1	1
Total carrying amount for equity accounted investees in these financial statements	1	1

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

### 23 Post Balance Sheet Events

#### December 2023 Lending

On 7 November 2023 the company entered into a secured convertible shareholder loan. This lending facility had a maximum draw down amount of £2,000,000. This loan has a 5-year term and accrues interest (not paid in cash) at 15%, compounding annually.