

Top Shelf International Holdings Ltd
Appendix 4D

1. Company details

Name of entity:	Top Shelf International Holdings Ltd
ABN:	22 164 175 535
Reporting period:	For the half-year ended 31 December 2022
Previous period:	For the half-year ended 31 December 2021

2. Results for announcement to the market

Financial results	31 Dec 2022 (\$'000)	31 Dec 2021 (\$'000)	Mvmt (\$'000)	Up / (down) %
Revenue	14,701	8,794	5,907	67.2%
Gross profit	3,475	2,376	1,100	46.3%
Underlying EBITDA ¹	(8,334)	(6,758)	(1,576)	(18.9%)
EBITDA	(9,815)	(7,788)	(2,027)	(26.0%)
Loss after tax	(19,008)	(9,555)	(9,453)	(98.9%)

Comments

Refer to the Directors' report within the attached interim report of Top Shelf International Holdings Ltd for commentary on results for the half-year.

3. Net tangible assets

	31 December 2022	31 December 2021
	\$	\$
Net tangible assets per ordinary share	0.47	0.81

Net tangible assets include right of use assets and the corresponding lease liabilities. Intangibles and deferred tax assets have been excluded.

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current Period

There were no dividends paid, recommended, or declared during the current financial period.

Previous Period

There were no dividends paid, recommended, or declared during the current financial period.

7. Audit qualification or review

¹ A reconciliation of underlying EBITDA to EBITDA with adjusting items has been set out in the Directors Report of the Interim Financial Report – 31 December 2022 accompanying this Appendix 4D.

Top Shelf International Holdings Ltd
Appendix 4D

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

Details of attachments (if any):

The Interim Report of Top Shelf International Holdings Ltd for the half-year ended 31 December 2022 is attached

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Top Shelf International Holdings Ltd

ABN 22 164 175 535

Interim Financial Report - 31 December 2022

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Top Shelf International Holdings Ltd Contents
31 December 2022

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Top Shelf International Holdings Ltd
Directors' report
31 December 2022

The directors present their report, together with the interim financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'Top Shelf') consisting of Top Shelf International Holdings Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2022.

Directors

The following persons were directors of the Company during the whole of the financial period and up to the date of this report, unless otherwise stated:

Adem Karafili – Executive Chairman

Drew Fairchild - Chief Executive Officer

Peter Cudlipp

Michael East

Lynette Mayne

The Company announced on 13 February 2023 the intention for Julian Davidson to be appointed as a director of the Company with Julian's formal appointment pending the issuance of an Australian Director ID.

Review of operations

Top Shelf is a Melbourne based distiller and marketer of premium Australian spirits, with distinctive brands in NED Australian Whisky, Grainshaker Australian Vodka and Act of Treason Australian Agave.

The Group has a track record of success creating high quality, premium Australian products and brands; each in its own way encapsulating a distinctive Aussie attitude, social experience and flavour profile.

The Group has established an integrated platform with expertise in the development and production of distilled spirits, and operates a modern fermentation, distillation, maturation and packaging facility in Campbellfield, Victoria.

The Group is creating Australia's first agave spirit range from its agave agronomy operation in The Whitsundays region of Queensland with a dedicated on-farm agave distillery currently under construction. The Group anticipates commencing agave harvest and production to have Act of Treason Australian Agave product available in market by December 2023.

In addition to distilling and manufacturing its own portfolio of spirit brands, Top Shelf also provides canning, bottling and packaging services from its Campbellfield facility.

Key business achievements

The key business achievements of the Company during FY23 1H included:

Operational

- NED Australian Whisky and Grainshaker Australian Vodka were recognised at the Melbourne International Spirits Competition as the Australian Whisky of the Year and the Australian Vodka of the Year respectively.
- Retail distribution point growth of Top Shelf's brand portfolio of 60% across independent and Coles Liquor Group retail partners. Sales velocity was demonstrated with the Group's core NED Australian Whisky product, the 700mL glass bottle, as the #7 highest selling Australian or American whisky in Coles Liquor Group.
- NED Australian Whisky and Grainshaker Australian Vodka were exclusively accessible to consumers at 2022 Supercars events (1.0 million people); summer festival and outdoor events to 31 December 2022 (750,000 people) and the Australian Open tennis in January 2023 (900,000 people).
- In 1H FY23, the Group undertook preparations to provide contract packaging services to a multinational beverage producer for a select number of products commencing in early 2023. This is anticipated to be a two year arrangement. This will simplify the number of contract packaging customers and products, and is expected to deliver efficiency and operating benefits to the Group in FY23 2H and FY24.

Investments

- Brand: the Group continued to invest to build brand awareness and consumer engagement inclusive a regional television campaign and out of home advertising, and sponsorships of the Supercars 2022 racing season, Grove

Racing, QRL Maroons, the 2023 Australian Open tennis and high profile on-premise in Melbourne, Victoria. FY23 1H expenditure: \$4.0 million.

- Whisky: the Group's whisky production and maturation program continued during FY23 1H with investment in new make production and associated new oak of \$1.4 million. At 31 December 2022 Top Shelf had over 2.1 million litres of whisky under maturation (@ 43% ABV).
- Agave: With the reveal of the Act of Treason Agave brand in September 2022, Top Shelf continued to invest in its agave agronomy operation at Eden Lassie, the development of the dedicated onsite agave distillery and ongoing brand development and associated go to market strategy. FY23 1H investment: \$2.7 million. At 31 December 2022 the Group had 614,000 plants in ground or ready to be planted (June 2022: 483,000) at the Eden Lassie agave farm with an additional 151,000 plants in nursery.

Financial Results

Revenue

In FY23 1H Top Shelf reported revenue of \$14.7 million (inclusive of branded product and contract packaging) representing an increase of \$5.9 million or 67% on the prior comparative period (FY22 1H). The revenue growth was attributable to branded product sales growth of \$7.1 million or 61% to \$11.8 million in FY23 1H (FY22 1H: \$4.6 million). In FY23 1H, branded product revenue represented 80% of group revenue in comparison to 53% in FY22 1H.

New sales channels and distribution point and customer expansion of within existing sales channels in conjunction with an extended product range of NED Australian Whisky were key drivers of branded product sales growth.

Gross margin

The Group reported gross margin of \$3.5 million in FY23 1H, an increase of \$1.1 million or 46% on the prior comparative period. As the Group's revenue mix skewed toward branded product, excise reflected 51% as component of cost of goods sold (FY22 1H: 40%).

Top Shelf's cash gross margin² of 28.8% in FY23 1H was consistent with FY22 1H.

Underlying EBITDA

The Group reported an underlying EBITDA loss in FY23 1H of \$8.3 million relative to \$6.8 million in the prior comparative period. The operating leverage of the Group³ improved from 139% in FY22 1H to 103% in FY23 1H reflecting the increasing scale of Top Shelf's operation and cost base leverage.

Underlying EBITDA in FY23 1H reflected:

- the variable contribution of the Group (Group gross margin less distribution costs) and recognition of the continued fair value growth of the Group's agave plant biological assets (\$6.0 million);
- the operating cost base across selling, marketing and operations functions (\$7.6 million) required to deliver the variable contribution and build the platform to facilitate future period growth;
- brand and business investment expenditure (\$3.2 million) inclusive of:
 - marquee sponsorships and media campaigns to continue to build brand awareness and consumer engagement in market;
 - development of Top Shelf's Act of Treason brand and go to market strategy;
- the requisite expenditure for group support functions and operating as a publicly listed company (\$3.7 million).

Financial position

At 31 December 2022, the Group reported a net tangible asset position of \$33.6 million (net assets excluding intangible and deferred tax assets).

The net tangible asset position at 31 December 2022 included:

² The Group define cash gross margin as reported gross margin excluding direct depreciation and whisky liquid cost. The whisky liquid cost was incurred by the Group to produce whisky in prior periods and is not representative of a current period cash cost. The FY22 1H cash gross margin also excludes the margin contribution of the agave non fungible token project recognised in December 2021.

³ Group operating leverage calculated as operating costs to underlying EBITDA as a percentage of group revenue

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Directors' report
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- maturing whisky inventories: \$8.9 million (June 2022: \$8.1 million) (recognised at cost);
- agave plant biological assets: \$19.6 million (June 2022: \$15.7 million) (recognised at fair value); and
- property, plant and equipment: \$31.0 million (June 2022: 28.9 million) (recognised at cost);

The assets of the Group at 31 December 2022 on an economic basis are categorised by:

- Whisky inclusive the future realisation margin of whisky spirit inventory maturing at 31 December 2022, production and maturation assets (\$40 million);
- Agave inclusive of agave farmland, agave distillery facility assets (currently under construction) and agave plant biological assets (\$25 million); and
- Packaging (canning and bottling) assets (\$13 million)

The Group amended a secured financing facility agreement with Longreach Credit in August 2022 with the facility limit extended from \$25.0 million to \$45.0 million. At 31 December 2022 the facility was drawn to \$35.0 million and the Group had a net debt position of \$28.3 million.

Non-IFRS financial information

The Directors use certain measures to manage and report on Top Shelf that are not recognised under Australian Accounting Standards (AAS) or International Financial Reporting Standards (IFRS). These measures are collectively referred to as non-IFRS financial measures under Regulatory Guide 230 Disclosing non-IFRS financial information published by ASIC. These non-IFRS financial measures do not have a prescribed meaning or standard definition under AAS or IFRS. The non-IFRS measures should not be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS.

The principal non-IFRS financial measure that is referred to in this Directors' Report is EBITDA, which represents earnings or losses before net finance costs, income tax, depreciation and amortisation. The directors consider the additional information of EBITDA is relevant and useful in measuring the financial performance of the Group. Other non-IFRS measures referred to in this Directors' Report include the pro forma financial results.

The following table summarises key reconciling items between statutory loss after tax attributable to the Company and EBITDA:

	31 Dec 2022 (\$'000)	31 Dec 2021 (\$'000)
Loss after tax	(19,008)	(9,555)
Income tax expense	6,426	294
Finance costs	2,010	950
Earnings before interest & taxation (EBIT)	(10,572)	(8,311)
Depreciation & amortisation	757	523
Earnings before interest, taxation and depreciation & amortisation (EBITDA)	(9,815)	(7,788)

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EBITDA

The following table reconciles reported EBITDA to underlying EBITDA for FY23 1H and the prior corresponding period, FY22 1H:

	31 Dec 2022 (\$'000)	31 Dec 2021 (\$'000)
Reported	(9,815)	(7,788)
Share based payments (non-cash)	521	304
Bad debt write-off (non-cash)	279	203
Non-recurring expenses ⁴	680	524
Underlying	(8,334)	(6,758)

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

⁴ Non-recurring expenses include discontinued vendor arrangements and non-recurring employee costs.

Top Shelf International Holdings Ltd
Directors' report
31 December 2022

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Drew Fairchild
Chief Executive Officer



Adem Karafili
Chairman

28 February 2023

Melbourne

**DECLARATION OF INDEPENDENCE BY SALIM BISKRI TO THE DIRECTORS OF TOP SHELF
INTERNATIONAL HOLDINGS LTD**

As lead auditor for the review of Top Shelf International Holdings Ltd for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Top Shelf International Holdings Ltd and the entities it controlled during the period.



Salim Biskri
Director

BDO Audit Pty Ltd

Melbourne, 28 February 2023

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Top Shelf International Holdings Ltd

Consolidated statement of profit or loss and other comprehensive income

		Consolidated	
	Note	31 December 2022 \$'000	31 December 2021 \$'000
Revenue from contracts with customers	7	14,701	8,794
Cost of sales			
Product cost of sales		(5,488)	(3,868)
Excise		(5,738)	(2,550)
Cost of sales – total	8	(11,226)	(6,418)
Gross Profit		3,475	2,376
Other income		220	20
Fair value gain on biological assets		3,084	3,074
Expenses			
Distribution		(586)	(560)
Selling		(2,892)	(2,830)
Marketing		(5,201)	(2,806)
Operating, general & administration		(7,695)	(6,933)
Share based payments		(521)	(304)
Depreciation & amortisation		(456)	(347)
Finance costs		(2,010)	(950)
Loss before income tax expense		(12,582)	(9,261)
Income tax expense	5	(6,426)	(294)
Loss after income tax expense for the year attributable to the owners of Top Shelf International Holdings Ltd		(19,008)	(9,555)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Top Shelf International Holdings Ltd		(19,008)	(9,555)
		Cents	Cents
Basic loss per share	17	(26.55)	(17.98)
Diluted loss per share	17	(26.55)	(17.98)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Top Shelf International Holdings Ltd

Consolidated statement financial position

	Note	Consolidated	
		31 Dec 2022 \$'000	30 Jun 2022 \$'000
Assets			
Current assets			
Cash and cash equivalents		6,689	20,129
Trade and other receivables		8,162	6,475
Inventories	9	13,370	11,257
Other assets		1,576	1,930
Total Current Assets		29,797	39,791
Non-current assets			
Property, plant and equipment	10	30,965	28,939
Biological assets	11	19,585	15,669
Right-of-use assets		6,039	6,227
Intangible assets		2,239	2,211
Deferred tax assets		6,190	12,616
Other assets		354	354
Total non-current assets		65,372	66,014
Total assets		95,169	105,805
Liabilities			
Current liabilities			
Trade and other payables		12,470	13,064
Lease liabilities		1,094	1,042
Provisions		918	844
Total current liabilities		14,482	14,950
Non-current liabilities			
Borrowings	12	32,277	23,913
Lease liabilities		6,009	6,073
Provisions		376	357
Total non-current liabilities		38,662	30,343
Total liabilities		53,144	45,293
Net assets		42,025	60,513
Equity			
Issued capital	13	95,569	95,569
Reserves		2,657	2,136
Accumulated Losses		(56,201)	(37,192)
Total Equity		42,025	60,513

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Top Shelf International Holdings Ltd

Consolidated statement of changes in equity

	Issued capital	Reserves	Accumulated losses	Total Equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2021	62,450	1,693	(20,755)	43,388
Loss after income tax expense for the year	-	-	(9,555)	(9,555)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(9,555)	(9,555)
Transactions with owners in their capacity as owners:				
Contributions of equity	35,000	-	-	35,000
Share issue transaction costs (net of tax)	(1,881)	-	-	(1,881)
Share-based payments	-	304	-	304
Balance at 31 December 2021	95,569	1,997	(30,310)	67,256
Balance at 1 July 2022	95,569	2,136	(37,193)	60,512
Loss after income tax expense for the year	-	-	(19,008)	(19,008)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(19,008)	(19,008)
Transactions with owners in their capacity as owners:				
Share-based payments	-	521	-	521
Balance at 31 December 2022	95,569	2,657	(56,201)	42,025

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Top Shelf International Holdings Ltd

Consolidated statement of cash flows

	Note	Consolidated	
		31 Dec 2022 \$'000	31 Dec 2021 \$'000
Cash flows from operating activities			
Receipts from customers		17,987	13,952
Payments to suppliers and employees		(34,209)	(23,731)
Receipts from R&D		-	307
Net cash used in operating activities		<u>(16,222)</u>	<u>(9,472)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(2,556)	(1,610)
Payments for intangibles		(29)	(91)
Payments for biological assets		(833)	(827)
Receipts from R&D		-	922
Net cash used in investing activities		<u>(3,418)</u>	<u>(1,606)</u>
Cash flows from Financing activities			
Proceeds from borrowings - external	12	10,000	10,000
Borrowings transaction costs	12	(2,022)	(1,400)
Proceeds from issue of shares	13	-	35,000
Share issue transaction costs	13	-	(2,366)
Repayment of lease liabilities -buildings & equipment		(162)	(102)
Interest and other finance costs paid - borrowings		(1,427)	(461)
Interest and other finance costs paid - leases		(189)	(377)
Net cash from financing activities		<u>6,200</u>	<u>40,294</u>
Net (decrease) / increase in cash and cash equivalents		<u>(13,440)</u>	<u>29,216</u>
Cash and cash equivalents at the beginning of the financial half-year period		20,129	9,467
Cash and cash equivalents at the end of the financial half-year period		<u>6,689</u>	<u>38,683</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The interim financial statements of Top Shelf International Holdings Ltd as a group consist of Top Shelf International Holdings Ltd ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year (referred to hereafter as the 'Group'). The interim financial statements are presented in Australian dollars, which is Top Shelf International Holdings Ltd.'s functional and presentation currency.

Top Shelf International Holdings Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. The Company listed on the Australian Securities Exchange ("ASX") on 10 December 2020.

A description of the nature of the Group's operations is included in the directors' report, which is not part of the financial statements.

Note 2. Statement of compliance

These interim financial statements for the half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

These interim financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2023.

Note 3. Basis of preparation

The interim financial statements have been prepared on the basis of historical cost except for the revaluation of biological assets. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Going concern basis

The interim financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activities, realisation of assets and discharging of liabilities in the normal course of business.

Risk factors

For the half-year ended 31 December 2022, the Group incurred a loss before tax of \$12.6 million (31 December 2021: loss before tax \$9.3 million) and had net cash outflows from operating activities of \$16.2 million (31 December 2021: net cash outflows of \$9.5 million).

The risks noted above indicate that there is material uncertainty as to whether the Group may continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in these interim financial report.

Available funding

At 31 December 2022, the Group had cash reserves of \$6.7 million and undrawn funds of \$10 million in accordance with a senior debt facility agreement with Longreach Credit Investors.

The facility has a borrowing base structure inclusive of whisky, agave and working capital assets against which TSI can draw facility funds. A \$5.0 million tranche is accessible in March 2023 conditional on the satisfactory completion of a review of the Group's calendar year 2023 business plan by Longreach Credit Investors. A second \$5.0 million tranche is conditional on the Group achieving 80% of agreed revenue performance targets and practical completion of the Group's agave distillery project at Eden Lassie.

On 27 February 2023, the Group has announced that it has raised \$10.0 million (before transaction costs) to fund its

Top Shelf International Holdings Ltd

capital project and working capital requirements via a capital placement transaction.

Risk mitigation considerations

The following mitigants have been considered:

- Funding available to the Group from existing cash reserves, available funds from the Group's senior debt facility agreement and completion of a capital placement transaction (as noted above).
- The Group's preparations to undertake a sale and leaseback transaction of the Eden Lassie Australian Agave farm inclusive of the appointment of external advisors to facilitate with the transaction.
- The Group's demonstrated historical revenue and margin growth trajectory and ability to successfully raise capital as required.
- Should the Group be required to conserve cash, the Group can delay planned capital expenditure, restrict and slow its investment and growth plans, release capital from operating assets and tailor the business to meet ongoing trading requirements and implement cash preservation measures.

With these mitigants considered, the directors remain confident that the Group will be able to meet its debts as and when they fall due for a period of 12 months from the date of signing this interim financial report. On this basis, the directors believe that it is appropriate to adopt the going concern basis in the preparation of this interim financial report.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial report. This interim financial report does not include any adjustments relating to the recoverability and classification of recorded assets amounts or to the amounts and classification of liabilities that might be necessarily incurred should the Group not continue as a going concern.

The principal accounting policies adopted are consistent in the preparation of this interim financial report are consistent with those adopted and disclosed in the Group's annual report for the year ended 30 June 2022, except for the application of the Group's accounting policies to a new business activity for the half year period commencing 1 July 2022:

Consolidated statement of financial performance classification change

The Group has revised the classification of third-party contract packaging excise recoveries in the presentation of the consolidated statement of financial performance. Management has assessed the contractual obligations of Top Shelf's customer arrangement to be an agent in relation to the excise obligation of product co-packed for its largest contract packaging customer. In accordance with the AASB 15 Revenue from Contracts with Customers, the Company has recognised the associated revenue on a net excise basis.

The table below summarises the reclassification for the comparative period, the half year ended 31 December 2021.

Original presentation		Revised presentation	
Revenue from contracts with customers		Revenue from contracts with customers	
Branded	4,615	Branded	4,615
Contract packaging	6,800	Contract packaging	4,179
Revenue – group total	11,415	Revenue – group total	8,794
Cost of sales	(9,039)	Cost of sales	(6,418)
Gross Margin	2,376	Gross Margin	2,376

Comparative figures are shown in the consolidated statement of financial position for 30 June 2022.

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and

Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 4. New or amended Accounting Standards and Interpretations adopted

The Group has adopted a number of new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these accounting standards and interpretations did not have any significant impact on the financial performance or position. Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet mandatory, have not been early adopted for the half year reporting period ended 31 December 2022.

Note 5. Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue, and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results.

In preparing this interim report, the significant estimates and judgements applied in the Group's accounting policies were consistent with those applied to the consolidated financial statements as at and for the year ended 30 June 2022.

Income tax

The Group has continued to apply the income tax policy disclosed in the Group's annual report for the year ended 30 June 2022.

Income tax losses incurred in the FY22 1H period have not been recognised as a deferred tax asset on the Group's consolidated statement of financial position. The Group has also derecognised a portion (\$5.7 million) of carried forward tax losses previously recognised as a deferred tax asset. Top Shelf expects to utilise these tax losses against future taxable amounts in future periods. At 31 December 2022, the Group had gross accumulated tax losses of \$19.1 million, of which \$8.8m is recognised as a deferred tax asset.

Note 6. Operating segments

Identification of reportable operating segments

The Group is organised into one operating segment as the Group operated only in Australia and one industry, as the producer of branded beverages and provision of contract packing services to third party beverage manufacturers. This is based on the internal reports that are reviewed and used by the Chief Executive Officer (who is identified as the Chief Operating Decision Maker ('CODM')) in assessing performance and in determining the allocation of resources. Accordingly, and consistent with the consolidated financial statements for the year ended 30 June 2022, the information provided in this interim report reflects the one operating segment.

EBITDA

Earnings before interest, taxation and depreciation & amortisation (EBITDA) is a financial measure monitored by the CODM, which is not prescribed by AAS or IFRS. The directors consider the additional information of EBITDA is relevant and useful in measuring the financial performance of the Group.

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A reconciliation of EBITDA from loss after income tax is illustrated in the table below:

	31 Dec 2022 (\$'000)	31 Dec 2021 (\$'000)
Loss after tax	(19,008)	(9,555)
Income tax expense	6,426	294
Finance costs	2,010	950
Earnings before interest & taxation (EBIT)	(10,572)	(8,311)
Depreciation & amortisation	757	523
EBITDA	(9,815)	(7,788)

Note 7. Revenue

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	31 Dec 2022 \$'000	31 Dec 2021 \$'000
<i>Major Revenue Stream</i>		
Branded (net of discounts and rebates)	11,762	4,615
Contract packaging	2,939	4,179
	<u>14,701</u>	<u>8,794</u>

Note 8. Cost of sales

	Consolidated	
	31 Dec 2022 \$'000	31 Dec 2021 \$'000
Raw Materials	4,412	2,798
Excise	5,738	2,550
Direct Labour	543	650
Manufacturing Overhead	533	420
	<u>11,226</u>	<u>6,418</u>

Note 9. Inventories

	Consolidated	
	31 Dec 2022	30 Jun 2022
<i>Current assets</i>		
Raw Materials and consumables	2,724	1,793
Intermediate Inventories	283	196
Finished Goods	1,937	1,511
Maturing Inventories	8,944	8,130
Provision for Stock Obsolescence	(518)	(373)
	<u>13,370</u>	<u>11,257</u>

Note 10. Property, Plant and Equipment

	Consolidated	
	31 Dec 2022 \$'000	30 Jun 2022 \$'000
<i>Non-current Assets</i>		
Property, Plant and Equipment	30,965	28,939

Top Shelf International Holdings Ltd

Reconciliation

A reconciliation of the Property, Plant and Equipment balance at the beginning and end of the current half-year period is set out below:

	\$'000
Balance at 1 July 2022	28,939
Additions	2,785
Depreciation during the half year ended 31 December 2022	(759)
Balance at 31 December 2022	<u>30,965</u>

Note 11. Biological assets

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Non current Assets</i>		
Agave plants - at fair value	<u>19,585</u>	<u>15,669</u>

Agave plants growing in the ground or nursery are accounted for as biological assets until the point of harvest. Biological assets are measured on initial recognition at the end of each reporting period at fair value less costs to sell. Changes in the fair value of growing plants are recognised in the profit or loss. Costs related to growing the plants and harvesting are capitalised into the carrying value in the statement of financial position. At the time of harvest, agave plants (pina) are measured at fair value less costs to sell and transferred to inventories.

Note 12. Borrowings

	Consolidated	
	31 Dec 2022	30 Jun 2022
	\$'000	\$'000
<i>Non-Current Liabilities</i>		
Loan from Longreach Direct Lending Fund - interest bearing	35,000	25,000
Borrowing Costs	(2,723)	(1,087)
	<u>32,277</u>	<u>23,913</u>

Financing Facility with Longreach Direct Lending Fund

On 29 August 2022, the Company executed a facility agreement amendment deed with Longreach Credit Investors extending the secured financing facility agreement limit by \$20.0 million to \$45.0 million.

The interest rate is 8.25%, subject to the Group's market capitalisation being above \$75.0 million. Should the market capitalisation threshold not be met, the interest rate increases to 10.25%. The maturity date has been extended to 15 December 2024. The borrowing base and minimum cash balance financial covenant terms and conditions of the facility remain unchanged.

The facility may be drawn in three tranches subject to the Group's borrowing base position. The tranche A (\$10.0 million) was drawn in 1H FY23. Tranche B (\$5.0 million) is accessible from March 2023 conditional on the satisfactory completion of a review of the Group's calendar year 2023 business plans by Longreach Credit Investors. Tranche C (\$5.0 million) is accessible subject to the Group achieving 80% of agreed revenue performance targets and practical completion of the Group's agave distillery project at Eden Lassie.

Note 13. Issued capital

	Consolidated			
	31 Dec 2022	30 Jun 2022	31 Dec 2022	30 Jun 2022
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	71,669,533	71,588,086	100,025	100,025
Share issue transaction costs, net of tax	-	-	(4,456)	(4,456)
	<u>71,669,533</u>	<u>71,588,086</u>	<u>95,569</u>	<u>95,569</u>

Top Shelf International Holdings Ltd

Note 14. Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 15. Contingent liabilities

The Group has given bank guarantees as at 31 December 2022 of \$375,000 (30 June 2022: \$375,000) to various landlords.

Note 16. Related party transactions

Parent entity

Top Shelf International Holdings Ltd is the parent entity.

Transactions with related parties

During the half-year ended 31 December 2022, the Company engaged Fairchild Advisory, a related party of Chief Executive Officer, Drew Fairchild, in relation to the provision of health safety, environment and quality services. The Company has incurred fees of \$31,000 (excluding GST) in relation to these services.

Receivable from related parties

There were no trade receivables from related parties at the current and previous reporting date.

Loans to/from and payables to related parties

During the half year ended 31 December 2022, there were no loans or payables with related parties.

Terms and conditions

All loan transactions were made on normal commercial terms and conditions and at market rates.

Note 17. Earnings per share

	Consolidated	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Loss after income tax attributable to the owners of Top Shelf International Holdings Ltd	(19,008)	(9,555)
Weighted average number of ordinary shares used in calculating basic earnings per share	71,590,547	53,137,816
Weighted average number of ordinary shares used in calculating diluted earnings per share*	71,590,547	53,137,816
	Cents	Cents
Basic loss per share	(26.55)	(17.98)
Diluted loss per share	(26.55)	(17.98)

* Options are excluded from the above calculation as their inclusion would be anti-dilutive

Note 18. Events after the reporting period

On 24 February 2023 the Company requested a trading halt with the Australian Securities Exchange (ASX) and subsequently on 27 February 2023 announced the completion of a capital placement with select institutional investors to raise new equity capital of \$10.0 million (before transaction costs) (the Offer). The Company recommenced trading on 28 February 2023.

The Company expects to receive the proceeds of the Offer on 2 March 2023 and lodge the requisite disclosures with ASX on this date.

Top Shelf International Holdings Ltd

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Drew Fairchild
Chief Executive Officer

28 February 2023
Melbourne



Adem Karafili
Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Top Shelf International Holdings Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Top Shelf International Holdings Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty relating to going concern

We draw attention to Note 3 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of

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the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit Pty Ltd

BDO


Salim Biskri
Director

Melbourne, 28 February 2023

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