

Appendix 4D Half-Year Report

Gage Roads Brewing Co Limited ABN 22 103 014 320

For the half-year ended 31 December 2015

Results for announcement to the market

Revenue from ordinary activities	down	6%	to	\$13,631,224
Profit from ordinary activities after tax attributable to members	up	147%	to	\$731,084
Net profit attributable to members	up	147%	to	\$731,084

Dividends (distributions)

There were no dividends declared for the period.
The company does not have a Dividend Re-investment Plan.

Net tangible assets per share	31 December	31 December
	2015	2014
	\$	\$
	0.03	0.04

Details of controlled entities

There were no controlled entities acquired or disposed of during the period.

Details of associates and joint venture entities

There were no associates and joint venture entities during the period.

Reporting Periods

The current reporting period is the half-year ended 31 December 2015. The previous corresponding period is the half-year ended 31 December 2014.

Commentary on the results for the half-year ended 31 December 2015

- NPAT up 147% to \$0.73 million over H1 FY15
- Carton and Keg sales of Gage Roads proprietary products up 132% to 222,000 carton equivalents*
- Sales of Australian Quality Beverages products down 32%
- Revenue \$13.6 million (down 6% on prior year comparative period)
- GRB draught sales up 161% over prior year comparative period.
- Gross Profit margin 54% (up from 51% in prior year comparative period).

* One carton equivalent = 7.92L = 24 x 330mL bottles = 0.16 X 50L kegs.

During the first half of FY16 the Company generated a \$0.73 million net profit after tax, up 147% over H1 FY15 (prior year comparative period "PYCP"). The uplift in earnings is in keeping with the Company's strategy to deliver earnings growth at lower volumes by concentrating on higher margin products and reducing costs through improved operating efficiencies.

Playing to our strengths as a flexible, efficient, quality driven craft brewery, in the last quarter of FY15 and early FY16, the company introduced a number of outward and inward facing strategies designed to improve earnings. Firstly the company targeted a shift in our sales mix towards the growing, higher margin, craft beer segment and draught beer sales. Secondly we targeted a reduction in operating expenditure via improved overall operating efficiencies and logistics improvements. I am pleased to report that that these measures are starting to deliver positive results.

Target a sales mix shift toward the growing higher margin craft beer segment

- Increase promotion of the Gage Roads' proprietary products
- Advance our Western Australian content based event and social media marketing strategy
- Advance our Western Australian on-premise strategy
- Expand our on-premise and marketing strategies to NSW and VIC in summer 2016
- Work with committed partners to refresh, re-position existing brands, introduce a number of new brand opportunities and line extensions and increase promotional activity
- Target new domestic and international contract and export opportunities

Target increased overall operating efficiency and reduce operating expenditure

- Focus on production processes that improve quality
- Utilise the warehouse strategy to improve production scheduling and minimise change-overs
- Target process change to reduce waste
- Improve the HSE system
- Improve the QA system

The last 6 months have seen significant inroads made in shifting the revenue mix towards higher margin craft products. Gage Roads' proprietary brands, representing the most profitable products in sales portfolio, now represents 26% of the company's total revenue stream, up from 9% this time last year. The Company's draught strategy is also generating improved results with sales and distribution targets currently exceeding our internal expectations. During the first half of FY16 sales of Gage Roads' proprietary products in draught increased 161%.

Both of these initiatives have helped the business improve its gross profit margin to 54% (up from 51% H1 FY15). The Company also worked during this period to ensure the improved margin in absolute terms was applied to a

reducing cost structure providing strong comparative earnings growth. The company's operations team and our warehousing facility helped deliver a 21% reduction in variable labour and production costs per litre (from 40c/L to 33c/L). These results along with reduced third party logistics charges have provided a 21% improvement in the Company's operating expenses.

Sales Results

During the half-year *Atomic Pale Ale* exceeded 100,000 cases per annum on a moving annual total basis and is one of the highest selling beers in the Pale Ale category in Australia. This is a considerable result considering the Company's current distribution extends to less than half of the available beer market. Similarly, our *Single Fin Summer Ale* has been enormously popular and has proven to be a fantastic addition to our portfolio.

The marketing strategy, which continues to focus on creating opportunities for product trial, increasing awareness, and creating engagement has been an important factor in driving retail sales growth. Awareness continued to be driven via increased partnership & event activity (up 122%) and saw the addition of major public events such as The Beaufort Street Festival (Western Australia's largest public/street festival). In the second half of FY16 the Company will activate new opportunities with new and existing event partners in Perth, Melbourne, and Brisbane. Product trial was generated via increased draught and on-premise distribution, participation in consumer and trade beer-related events, branded activations, and in-store sampling.

Gage Roads' draught and on-premise strategy has gained significant traction with more tap points secured at key WA venues. This strategy forms an important part of our marketing approach and serves to build the Gage Roads brand and establish an important touch-point for our consumers. The execution of this strategy has seen 161% growth in draught sales of our proprietary products over the PYCP and has contributed to the success of our products in off-premise (retail) and we are looking to extend this strategy to other mainland states.

Sales made from our contract brewing division, Australian Quality Beverages, declined by 32% over the PYCP. This is reflective of a market-wide decline of mainstream, commercial-style beers. The business's contract-brewed mainstream products have experienced increased competitive pressures as the larger Australian brand owners seek to maintain volumes via targeting increased market share in a declining market. Consequently, Gage Road's broader strategy sees the business lessening its reliance on these types of commercial beers over time as we deliver growth in our proprietary product portfolio and other higher margin contract brewed products.

Operations update

Focusing on production processes that improve quality and productivity together with our warehousing strategy has enabled the business to achieve sustained operational efficiencies that are in line with or have exceeded best-practice industry benchmarks. This in turn has enabled the business to achieve cost savings with variable labour being reduced by 19% over the PYCP from 22c per litre to 18c per litre. Similarly, variable production overheads have improved by 13% over the PYCP from 18c per litre to 13c per litre. We expect these savings to be on-going and to contribute to improved earnings into the future.

Cash Flow and Balance Sheet

The Company ended the half-year with healthy cash reserves of \$2.5 million on the back of a successful 6 months.

Net operating cash flows were \$1.3 million for the half-year and are supported by the improved earnings result as discussed above.

Investing cash flows have been reduced to \$0.3 million during the half-year. These cash outflows relate to our continuous improvement program.

The Company has a \$9.7 million debt facility which is drawn to \$9.6 million and a \$2 million overdraft facility which is currently undrawn. On 26 February 2016, with the continued support of Woolworth's guarantee, the Company has extended the term of the \$9.7 million debt facility with the ANZ by 6 months to March 2017.

Outlook for H2 FY16

Over the past few months, the Company has commenced exploring avenues to distribute and promote its brands through other channels to market. Recently, an off-premise drive in Western Australia, in cooperation with our

independent channel wholesaler, has seen independent sales and distribution of our craft range increase by over 80%.

During the next 6 months, the Company will:

- Continue to concentrate on a sales mix shift towards higher margin craft products;
- Further expand our marketing and draught strategy on the Australian east coast and generate on-premise traction in those States;
- Explore strategies to distribute our proprietary portfolio to broader channels to market, and
- Continue to focus on production efficiencies that deliver cost savings.

With growing consumer demand and awareness, over the next 5 years, the company expects to achieve similar access to broader routes to market on a national basis. Our overarching 5-year goal is to continue to drive higher margin products and increase draught volumes in our sales mix, to achieve earnings before interest, tax, depreciation and amortisation (EBITDA) of at least \$1 per litre.

Please refer to the attached Financial Report for the half-year ended 31 December 2015 for further information.

John Hoedemaker
Managing Director

Compliance statement

1. This report, and the accounts upon which this report is based, have been prepared in accordance with AASB Standards.
2. This report, and the accounts upon which the report is based, use the same accounting policies.
3. This report gives a true and fair view of the matters disclosed.
4. This report is based upon accounts to which one of the following applies:

The accounts have been audited.

The accounts have been subject to review.

The accounts are in the process of being audited or subject to review.

The accounts have *not* yet been audited or reviewed.

5. The auditor's review report is attached.
6. The entity has a formally constituted audit committee.



Brandenburg

Signed:

Company Secretary

Date: 29 February 2016

Name:

Marcel Brandenburg



**GAGE ROADS BREWING CO LIMITED
FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

ABN 22 103 014 320

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the annual report for the year ended 30 June 2015, and any public announcements made by Gage Roads Brewing Co Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Gage Roads Brewing Co Ltd
Financial Report
For the Half-Year Ended 31 December 2015

Corporate Directory

Directors

Brad Banducci (Alternate Director to Chris Baddock)
Chris Baddock
Ian Olson (Chairman)
John Hoedemaker
Robert Gould

Managing Director

John Hoedemaker

Company Secretary

Marcel Brandenburg

**Principal Place of Business
& Registered Office**

14 Absolon Street
PALMYRA WA 6157
Tel: (08) 9314 0000
Fax: (08) 9331 2400
Web: www.gageroads.com.au

Postal Address

PO Box 2024
PALMYRA WA 6961

Auditor

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

Legal Adviser

Steinepreis Paganin
Lawyers and Consultants
Level 4, The Read Building
16 Milligan Street
PERTH WA 6000

Stock Exchange Listing

ASX Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000

ASX Code: GRB

Share Registry

Automatic Registry Services
PO BOX 223
WEST PERTH WA 6872

Registry Enquiries

Within Australia: 1300 288 664
Outside Australia: (+61 8) 9324 2099

Gage Roads Brewing Co Ltd
Financial Report
For the Half-Year Ended 31 December 2015

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Gage Roads Brewing Co Ltd
Review of Operations
For the Half-Year Ended 31 December 2015

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Gage Roads Brewing Co Ltd
Review of Operations
For the Half-Year Ended 31 December 2015

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Gage Roads Brewing Co Ltd
Review of Operations
For the Half-Year Ended 31 December 2015

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John Hoedemaker

Managing Director

Gage Roads Brewing Co Ltd
Directors' Report
For the Half-Year Ended 31 December 2015

Directors' Report

Your Directors present their report on Gage Roads Brewing Co Limited for the half-year ended 31 December 2015.

Directors

The following persons were Directors of the Company during the whole of the financial half-year and up to the date of this report, unless otherwise stated.

Brad Banducci (Alternate Director to Chris Baddock)
Chris Baddock
Ian Olson (Chairman)
John Hoedemaker
Robert Gould

Managing Director

John Hoedemaker

Company Secretary

Marcel Brandenburg

Principal Activities

During the half-year the principal continuing activities of the Company were the brewing, packaging, marketing and selling of beverages.

No significant change in the nature of these activities occurred during the half-year.

Dividends

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Review and results of operations

The profit of the Company for the half-year ended 31 December 2015 after providing for income tax amounted to \$731,084 (2014: \$296,213).

A review of the Company's operations and its financial position, business strategies and prospects is located at page 4 of this report.

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 on page 8.

This report is made in accordance with a resolution of Directors.



Ian Olson
Chairman

Palmyra
29 February 2016

DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF GAGE ROADS BREWING CO. LTD

As lead auditor for the review of Gage Roads Brewing Co. Ltd for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

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



Jarrad Prue
Director

BDO Audit (WA) Pty Ltd
Perth, 29 February 2016

Gage Roads Brewing Co Ltd
Directors' Declaration
For the Half-Year ended 31 December 2015

The Directors of the Company declare that:

- (a) The financial statements and notes set out on pages 12 to 21 are in accordance with the Corporations Act 2001 and:
 - (i) comply with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the Company's financial position as at 31 December 2015 and of its performance for the half-year ended on that date.
- (b) In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and behalf of the Directors by:



Ian Olson
Chairman

Palmyra
29 February 2016

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Gage Roads Brewing Co. Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Gage Roads Brewing Co. Ltd, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year 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 the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 company's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Gage Roads Brewing Co. Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Gage Roads Brewing Co. Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Gage Roads Brewing Co. Ltd is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd



Jarrad Prue

Director

Perth, 29 February 2016

Gage Roads Brewing Co Ltd
Statement of Profit or Loss and Other Comprehensive Income
For the Half-Year ended 31 December 2015

	Notes	31 December 2015 \$	31 December 2014 \$
Revenue from continuing operations			
Sales revenue		13,631,224	14,488,612
Interest revenue		254	4,336
	2	<u>13,631,478</u>	<u>14,492,947</u>
Other income	2	82,858	39,915
Raw materials, consumables & delivery		(6,274,453)	(7,042,694)
Operating expenses		(1,842,901)	(2,341,638)
Employee expense		(2,792,815)	(3,222,772)
Depreciation and amortisation expense		(592,742)	(577,711)
Impairment charges		-	(37,632)
Sales and marketing		(247,539)	(273,232)
Administration costs		(233,648)	(232,646)
Occupancy costs		(352,435)	(187,844)
Finance costs		(304,342)	(190,460)
Profit before income tax	3	<u>1,073,461</u>	<u>426,235</u>
Income tax (expense)		(342,377)	(130,022)
Net Profit after tax for the half-year		<u>731,084</u>	<u>296,213</u>
Total comprehensive income for the half-year		<u>731,084</u>	<u>296,213</u>
Profit and Other Comprehensive Income attributable to members of Gage Roads Brewing Co Ltd		<u>731,084</u>	<u>296,213</u>
Profit per share attributable to the ordinary equity holders of the company:			
Basic and diluted profit per share (cents)		0.18	0.08

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Gage Roads Brewing Co Ltd
Statement of Financial Position
As at 31 December 2015

	Notes	31 December 2015 \$	30 June 2015 \$
ASSETS			
Current assets			
Cash and cash equivalents		2,510,341	1,617,075
Trade and other receivables		2,904,370	2,132,905
Inventories		2,679,453	2,162,652
Total current assets		<u>8,094,164</u>	<u>5,912,632</u>
Non-current assets			
Property, plant and equipment	5	23,113,488	23,335,740
Intangible assets		28,275	48,405
Deferred tax asset	6	2,897,248	3,239,625
Total non-current assets		<u>26,039,011</u>	<u>26,623,770</u>
Total assets		<u>34,133,175</u>	<u>32,536,402</u>
LIABILITIES			
Current liabilities			
Trade and other payables	7	7,513,941	6,720,160
Borrowings	8	9,689,255	9,723,170
Total current liabilities		<u>17,203,196</u>	<u>16,443,330</u>
Non-current liabilities			
Provisions		221,300	197,600
Borrowings		-	-
Total non-current liabilities		<u>221,300</u>	<u>197,600</u>
Total liabilities		<u>17,424,496</u>	<u>16,640,930</u>
Net assets		<u>16,708,679</u>	<u>15,895,471</u>
EQUITY			
Contributed equity	9	26,012,998	26,012,998
Share options reserve		1,106,311	1,024,187
Accumulated losses		(10,410,630)	(11,141,714)
Total equity		<u>16,708,679</u>	<u>15,895,471</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Gage Roads Brewing Co Ltd
Statement of Changes in Equity
For the Half-Year ended 31 December 2015

	Contributed equity \$	Accumulated Losses \$	Share Option reserve \$	Total equity \$
At 1 July 2014	26,012,998	(10,314,893)	1,010,093	16,708,198
Total comprehensive income for the half-year	-	296,213	-	296,213
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity, net of transaction costs	-	-	-	-
Employee and other share options expensed	-	-		
At 31 December 2014	26,012,998	(10,018,680)	1,010,093	17,004,411
Total comprehensive income for the half-year	-	(1,123,034)	-	(1,123,034)
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital, net of transaction costs	-	-	-	-
Employee share plan shares expensed	-	-	14,094	14,094
At 1 July 2015	26,012,998	(11,141,714)	1,024,187	15,895,471
Total comprehensive income for the half-year	-	731,084	-	731,084
capacity as equity holders:				
Employee and other share options expensed	-	-	82,124	82,124
At 31 December 2015	26,012,998	(10,410,630)	1,106,311	16,708,679

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Gage Roads Brewing Co Ltd
Statement of Cash Flows
For the Half-Year ended 31 December 2015

	31 December 2015 \$	31 December 2014 \$
Cash flows from operating activities		
Receipts from customers (inclusive of GST, WET and Excise Tax)	21,816,251	19,543,201
Payments to suppliers and employees (inc. of GST, WET and Excise Tax)	(20,241,506)	(21,443,997)
	1,574,745	(1,900,796)
Interest received	254	4,336
Interest paid	(304,342)	(190,460)
Net cash inflow/(outflow) from operating activities	1,270,657	(2,086,920)
Cash flows from investing activities		
Payments for property, plant and equipment	(343,476)	(1,080,293)
Net cash outflow from investing activities	(343,476)	(1,080,293)
Cash flows from financing activities		
Proceeds from borrowings	57,544	3,128,268
Repayment of borrowings	(91,459)	(101,597)
Net cash inflow from financing activities	(33,915)	3,026,671
Net decrease in cash and cash equivalents	893,266	(140,542)
Cash and cash equivalents at the beginning of the financial half-year	1,617,075	1,027,436
Cash and cash equivalents at the end of the financial half-year	2,510,341	886,895

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Gage Roads Brewing Co Ltd
Notes to the Financial Statements
For the Half-Year ended 31 December 2015

Note 1 : Summary of significant accounting policies

(a) Basis of preparation of half-year financial statements

The general purpose financial report for the half-year reporting period ended 31 December 2015 has been prepared in accordance with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Act 2001.

The historical cost basis has been used as the basis of preparation.

These half-year financial statements do not include all the notes of the type normally included in the annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial statements. Accordingly, this half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2015 and any public announcements made by Gage Roads Brewing Co Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in this half-year financial report as compared with the most recent annual financial report, unless otherwise stated.

New and amended standards adopted by the entity

A number of new or amended standards became applicable for the current reporting period, however, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2016 annual report as a consequence of these amendments.

Impact of standards issued but not yet applied by the entity

There were no new standards issued since 30 June 2015 that have been applied by Gage Roads Brewing Co Limited. The 30 June 2015 annual report disclosed that the Company anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2015.

Note 2 : Revenue & Other Income

	31 December 2015 \$	31 December 2014 \$
<i>Revenue</i>		
Sale of goods	20,353,270	21,184,742
Less: Excise tax & WET collected	(6,722,046)	(6,696,130)
Total sale of goods	13,631,224	14,488,612
Interest	254	4,336
	13,631,478	14,492,947
<i>Other income</i>		
Other	82,858	39,915
	13,714,336	14,532,862

Note 3 : Expenses

Profit (Loss) before income tax includes the following specific expenses that are unusual because of their nature, size or incidence:

	31 December 2015 \$	31 December 2014 \$
Employee share-based payment expense	82,124	-
Impairment in relation to obsolete equipment	-	37,632
	82,124	37,632

Gage Roads Brewing Co Ltd
Notes to the Financial Statements
For the Half-Year ended 31 December 2015

Note 4 : Share-based payments

(a) Executive and Employee Share Plan

Shares issued pursuant to this Plan (Incentive Shares) are for services rendered by eligible employees and executives to date and, going forward, for services rendered by existing and any new eligible employees and executives who are appointed in the future. The Company feels that incentive shares are effective consideration to eligible employees and executives for their ongoing commitment and contribution to the Company.

	Date shares granted	Loan Expiry date	Issue price	Balance at start of the year	Granted during the year	Forfeited during the year	Balance at end of the year	Vested at the end of the Year
Executives and Senior Management	2-Oct-15	2-Oct-22	-	-	12,000,000	-	12,000,000	-
Employees	2-Oct-15	2-Oct-22	-	-	19,000,000	-	19,000,000	-
Total					31,000,000		31,000,000	

**(i) Employee and Executive Share Plan shares issued to key management personnel
2 October 2015**

On 2 October 2015, 31,000,000 shares were issued to executives and employees of the Company at an issue price of 6.3 cents per share and corresponding non-recourse loans totalling \$1,953,000 were entered into in accordance with the Company's Employee and Executive Share Plan as part of their remuneration and having regard for their past and potential contribution to the Company.

Summary of key Loan Terms:

- Loan amount: \$0.063 per share
- Interest rate: 0%
- Term of loan: 7 years (expiring 2 October 2022)
- Vesting condition for 33.33%: remains eligible employee for 12 months
- Vesting condition for further 33.33%: remains eligible employee for 24 months
- Vesting condition for balance: remains eligible employee for 36 months
- Subject to the terms and conditions of the Employee and Executive Share Plan as approved by shareholders on 18 November 2014

The loans are non-recourse except against the Shares held by the participant to which the Loan relates.

The Board may, in its absolute discretion, agree to forgive a Loan made to a participant.

The fair value at grant date of \$486,700 was calculated using the Black Scholes pricing model that took into account the term, the underlying value of the shares, the exercise price, the expected dividend yield, the impact of dilution and the risk-free interest rate.

Model inputs used to value the options granted included:

- exercise price is \$0.063
- market price of shares at grant date, \$0.063
- expected volatility of the Company's shares is 30%,
- risk-free interest rate used is 2.03%
- time to maturity, 5 years; and
- a dividend yield of 1%

Gage Roads Brewing Co Ltd
Notes to the Financial Statements
For the Half-Year ended 31 December 2015

Note 4 : Share-based payments (continued)

The expected volatility during the term of the options is based around assessments of the volatility of similar-sized listed, including newly listed, entities and entities in similar industries at grant date.

For the purposes of the Black & Scholes valuation a 1% dividend yield has been used as a model input as, given the length of term, it is reasonable to assume that dividends will be available to be distributed during this term. However, at this time the Company does not have a current dividend policy.

The value of the instruments has been expensed to remuneration on a proportionate basis for each financial year from grant date to vesting date. The proportion of the value of the instrument which was expensed to remuneration and accounted for in the share option reserve was \$82,124 for the half-year ended 31 December 2015.

	31 December 2015 \$
(b) Expenses arising from Share-based payments	
Employee and Executive Share Plan shares	82,124
	82,124

Note 5 : Property, plant & equipment

	Plant and equipment	Office equipment	Motor vehicles	Total
At 30 June 2015				
Cost	27,910,936	319,290	250,916	28,481,142
Accumulated depreciation	(4,727,856)	(229,746)	(187,800)	(5,145,402)
Net book amount	23,183,080	89,544	63,116	23,335,740

**Half-year ended 31
December 2015**

Opening net book amount	23,183,080	89,544	63,116	23,335,740
Additions	305,218	38,259	-	343,477
Depreciation charge	(535,118)	(24,823)	(5,788)	(565,729)
Impairment Charge	-	-	-	-
Disposals	-	-	-	-
Closing net book amount	22,953,180	102,980	57,328	23,113,488

At 31 December 2015

Cost	28,216,154	357,549	250,916	28,824,619
Accumulated depreciation	(5,262,974)	(254,569)	(193,588)	(5,711,131)
Impairment Charge	-	-	-	-
Disposals	-	-	-	-
Net book amount	22,953,180	102,980	57,328	23,113,488

(a) Assets in the course of construction

The carrying value of assets disclosed above include the following expenditure recognised in relation to plant and equipment which is in the course of construction. As it is not yet available for use this plant and equipment has not been depreciated.

	31 December 2015 \$	30 June 2015 \$
Plant and equipment	74,325	58,229

Gage Roads Brewing Co Ltd
Notes to the Financial Statements
For the Half-Year ended 31 December 2015

Note 6 : Income tax benefit / Deferred Tax Asset

	31 December 2015	30 June 2015
	\$	\$
(a) Deferred tax asset		
Recognition of deferred tax asset	2,897,248	3,239,625
(b) Recognised tax losses		
Unused tax losses for which a deferred tax asset has been recognised	9,657,492	10,798,749
Deferred tax asset @ 30%	2,897,248	3,239,625

Deferred tax assets and liabilities have been brought to account as at 31 December 2015 after considering the level of tax losses carried forward and available to the Company against future taxable profits and the probability within the future that taxable profits will be available against which the benefit can be claimed. The Company believes that due to the growth of Gage Roads' proprietary brands and contract brew brands it is probable that sufficient future taxable profits will be available against which unused tax losses can be utilised.

The Company has investigated the availability of the carry forward tax losses in respect of Divisions 165, 166 and 175 of the Income Tax Assessment Act 1997 (being the satisfaction of the continuity of ownership tests, or alternatively the satisfaction of the same business test and their non preclusion by the income injection provisions) and has formed the opinion that it is more likely than not that the Company will not be prevented from deducting all of its accumulated losses as at 31 December 2015 by virtue of these divisions of the Income Tax Assessment Act 1997.

(c) Significant Estimates & Judgements

As disclosed to the ASX in May 2009, in conjunction with Woolworths Limited acquiring a 25% interest in Gage Roads Brewing, the Company also entered into a contractual Supply Agreement with Woolworths Limited to contract brew products for a three year Initial Term and two year Extended Term. Subsequently Deferred Tax Assets were recognised on Gage Roads' financial statements at 31 December 2009.

These Deferred Tax Assets are recognised as being recoverable based on internal sales budgets and profit projections for the period of the supply agreements extended term. Additional Deferred Tax Assets have been recognised in respect of losses incurred subsequent to the Woolworths Limited investment. These losses are recognised as assets on the basis that the Supply Agreement will be renewed and extended beyond the terms of the current Supply Agreement. Should this Agreement not be continued beyond its Extended Term, these balances may not be recoverable at the amounts recognised in the Statement of Financial Position.

Note 7 : Trade and other payables

	31 December 2015	30 June 2015
	\$	\$
Trade and other payables from operations	7,050,715	6,259,361
Payables for capital equipment	463,226	460,799
	7,513,941	6,720,160

Gage Roads Brewing Co Ltd
Notes to the Financial Statements
For the Half-Year ended 31 December 2015

Note 8 : Borrowings

The Company has a committed credit facility of \$9.7 million with the ANZ Banking Group which is drawn to \$9.6 million at the period end. On 16 February 2016 the Company and ANZ executed a letter which waived the requirement for the Company to report on the 31 December 2015 covenant, which would have otherwise been breached. On 26 February 2016 the Company has executed a letter of variation to extend the term of the facility by 6 months, expiring March 2017.

The loan is a fixed rate, Australian Dollar denominated loan.

Contractual maturities of financial liabilities

At 31 December 2015	< 1 year	1 - 2 years	2 - 5 years	Total contractual cash flows	Carrying Value
Trade payables	5,724,655	-	-	5,724,655	5,724,655
Other payables	2,010,586	-	-	2,010,586	2,010,586
Loans & leases	10,568,949	704,914	759,436	12,033,299	9,689,255
Total Payable	18,304,190	704,914	759,436	19,768,540	17,424,496

Contractual maturities of financial liabilities

At 30 June 2015	< 1 year	1 - 2 years	2 - 5 years	Total contractual cash flows	Carrying Value
Trade payables	5,167,364	-	-	5,167,364	5,167,364
Other payables	1,861,003	-	-	1,861,003	1,861,003
Loans & leases	1,266,269	9,744,015	-	11,010,284	9,612,564
Total Payable	8,294,636	9,744,015	-	18,038,651	16,640,931

There have been no changes to the terms, conditions and security over the loans from the disclosures in the 30 June 2015 annual report. On 26 February 2016 the term of the senior debt facility was extended by 6 months to expire in March 2017.

Note 9 : Contributed equity

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	Shares	Shares	\$	\$
(a) Share Capital				
Ordinary shares Fully paid	426,332,293	395,332,293	26,012,998	26,012,998
	2015	2014	2015	2014
	Shares	Shares	\$	\$
(b) Movement in contributed equity:				
1 July (opening balance)	395,332,293	395,332,293	26,012,998	26,012,998
New shares issued	-	-	-	-
<i>Issues of shares during the half-year</i>				
Ordinary shares issued (Employee loan Shares)	31,000,000	-	-	-
31 December (closing balance)	426,332,293	395,332,293	26,012,998	26,012,998

At 31 December 2015 there were 426,332,293 ordinary shares on issue.

Gage Roads Brewing Co Ltd
Notes to the Financial Statements
For the Half-Year ended 31 December 2015

Note 10 : Contingencies

(a) Contingent liabilities and assets

There are no material contingent liabilities or contingent assets of the Company at 31 December 2015.

Note 11 : Events occurring after reporting date

On 16 February 2016 the Company has executed a letter of variation with the ANZ Banking Group on its existing credit facility to waive the requirement for the Company to report on the 31 December 2015 covenant, which would have otherwise been breached.

On 26 February 2016 the Company has executed a letter of variation with the ANZ Banking Group on its existing credit facility to extend the term by 6 months, expiring March 2017.

No other matter or circumstance other than those mentioned above have arisen since 31 December 2015, which has significantly affected, or may significantly affect, the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years.

Note 12 : Fair Value Financial Instruments

Recurring fair value measurements

The Company does not have any financial instruments that are subject to recurring or non-recurring fair value measurements.

Fair values of financial instruments not measured at fair value

The Company does not have any financial instruments that are not measured at fair value.

Note 13 : Segment Reporting

Management has determined that the company has two operating segments, being proprietary brand brewing and contract brewing. As the processes from production to retailing are almost identical for both products, and they exhibit similar economic characteristics, they meet the AASB 8 criteria for aggregation.

Due to the extensive overlapping of the two operating segments, the Board monitors the company based on overall Net Profit level along with production volumes. This internal reporting framework is considered the most relevant to assist the chief operating decision maker with making decisions regarding the company and its operating activities.

There are no discrete corporate activities to the segments that would require reconciliation between segment expenses and total expenses.

	31 December 2015 \$	31 December 2014 \$
Revenue from external sources	13,631,224	14,488,612
Net profit (loss) before tax	1,073,461	426,235
Reportable segment assets	34,133,175	36,436,828
Reportable segment liabilities	17,424,496	19,432,417

Woolworths Limited is a major customer of the company as defined by AASB 8, as revenue from that customer exceeds 10% of total revenue from external sources. The Company sells into the Woolworth's national distribution network and also to other national and international outlets.