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Lark Distilling Co.
ABN 62 104 600 544

Annual Report – 30 June 2021

Lark Distilling Co. Ltd
Corporate directory
30 June 2021

Directors

Mr David Dearie (Non-Executive Chairman)
Mr Geoff Bainbridge (Managing Director)
Mr Warren Randall (Non-Executive Director)
Ms Laura McBain (Non-Executive Director)

Company secretary

Ms Melanie Leydin

Registered office

Level 1
30 Argyle Street
Hobart TAS 7000

Principal place of business

Level 1
30 Argyle Street
Hobart TAS 7000

Auditor

Deloitte
Level 8
22 Elizabeth Street
Hobart TAS 7000

Stock exchange listing

Lark Distilling Co. Ltd shares are listed on the Australian Securities Exchange (ASX code: LRK)

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Lark Distilling Co. Ltd
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Lark Distilling Co. Ltd
Letter from the chairman
30 June 2021

Dear Shareholders,

It has been another incredible year of challenges for Australian business and the general population with COVID-19 continuing to influence and challenge every aspect of our daily activities. During 2021 the continuing COVID lockdowns have challenged our business in many ways, none more than the closures of restaurants, bars and tasting rooms throughout the country.

Despite the considerable challenges your board, executive leaders and the whole team have remained focused on building our brands and creating a solid foundation to support sustainable, profitable growth. I would like, on behalf of the board, to place on record our thanks and appreciation for the incredible resilience, energy, dedication, and commitment shown from the Lark employees.

Our Managing Director, Geoff Bainbridge, and his executives have worked tirelessly to keep everyone focused and fully informed on our priorities during the various lockdowns. We are looking forward to the day of a return to normal working and to reconnecting with our colleagues and our loyal consumers. I am pleased to advise that 100% of the Board and executive team at Lark have been vaccinated and all but a small handful of employees have yet to be vaccinated.

Your business has performed well during these challenging trading conditions. Net Sales Revenue (revenue after excise) for period was \$12.92 million, up 98% year on year. Gross Margin, as a percentage of Net Revenue achieved 67%, improving 5.1 ppts year on year, as a result, profit (before income tax) of \$1.05 million) improved 183% or \$2.32m over the previous corresponding period.

Despite this growth, our business has been impacted by COVID19, however we have made significant progress in a number of key strategic initiatives. We have increased litres of whisky under maturing by 54% to 1,093,073 litres on 30 June 2021, up from 711,313 litres as of 30 June 2020. This has been a tremendous achievement and provides the foundation for our future.

Lark Whisky under maturation is valued at \$236 million on 30 June 2021. We anticipate growing this inventory to some 1.8 million litres by the end of 2022. Due to increased mix, product innovation, channel diversification and premiumisation of the portfolio the restated Net Sales Revenue per Litre increased from \$139 to \$216 a 55% increase year over year. Supporting this we invested \$3.6 million in building a whisky “bank” through in house production & outsource partnerships including the purchase of 30,000 of maturing whisky to address a previously identified inventory shortfall required for fiscal years 2023 & 2024.

Some of the outstanding and innovative activities are listed below:

- Expansion of the Lark Limited Release Programme
- Expansion of Core Programme to 3 SKU's (Classic, Cask Strength, Double Tawny)
- Launch of Lark Legacy at \$1,800 per bottle
- Launch of Lark Rare Cask Series at \$500 per bottle
- Launch of Symphony at \$139 per bottle to enable more consumer to enter the Lark Brand Franchise
- Successful relaunch of Forty Spotted Gin - October 2020.

Supporting these brand initiatives, we moved to take direct control of the sales function by replacing the mainland distributor with our own dedicated sales team. This highly motivated dedicated Lark team quickly gained range extensions in all major domestic retailers. One notable success from our dedicated direct sales focus is that Lark was the first Australian Whisky to exceed \$100,000 of retail sales in one week at a leading national account.

To further engage and communicate with our loyal and new brand lovers we opened the Forty Spotted Gin Bar in Hobart, and it has quickly become a must visit destination in Tasmania. We look forward welcoming more guests as on-premise and travel restrictions are lifted. We have an exciting new Whisky Bar development currently underway and on target to open in November of 2021. I would like to place on record our thanks and gratitude for our hospitality team who successfully navigated through a complete COVID shutdown of all hospitality venues for the majority of the first half of the year.

Lark Distilling Co. Ltd
Letter from the chairman
30 June 2021

Rounding out our brand building efforts we have launched a new Lark Shopify website creating a seamless experience for Lark Brand lovers. Our growth in online was in excess of 400% YOY and in the month of November 2020 we recorded almost \$500,000 of direct to consumer sales underpinned with the successful launch of Rare Cask PARA50.

The combined hospitality and e-commerce businesses now represents in excess of 40% of the total company sales.

Of course, to achieve these successes require exceptional quality whisky and gin and our distillers have ensured that our brands gain international and domestic recognition with Lark nominated for Whiskey producer of the year at the International Whiskey and Spirits Competition (outside of Scotland) - one of only 4 distillers.

At the IWSC awards we won 1 Gold, 7 Silver & 2 Bronze across our Core & Limited Release programs, an outstanding recognition for the quality of our whisky. Not to be outdone Forty Spotted Gin received multiple awards at recent Gin Masters Awards & World Gin Awards.


I am extremely proud that Lark became the first Australian Whisky Distiller to be Certified Carbon Neutral. Accreditation is issued under the Federal Government's Climate Active Program, one of the most widely recognised carbon neutral programs of its kind in the world. This initiative was a personal crusade by our CEO, Geoff Bainbridge and wholeheartedly embraced by the executive team and by every single employee. Congratulations to everyone on this achievement.

I am quite confident that the scale and breadth of our whisky programme is world leading in terms of innovation, number of releases and the quality of those releases and is a credit to the culture and quality of personnel at Lark. To further strengthen the executive team we added new heads of finance, marketing, e-commerce and production, and we are delighted with their contributions thus far.

Our whisky under maturation is the foundation that enables us to build our brands, to expand our distribution base, to release uniquely Tasmanian whisky and to create shareholder value. We are in a strong position to participate in the continued growth of the domestic and selected international spirits category where this sector is both resilient and is witnessing sustainable premiumisation.

Finally, we appreciate your on-going support of Lark Distilling Company.

Sincerely yours,



David Dearie
Chairman



Lark Distilling Co. Ltd
Review of operations
30 June 2021

Lark is proud to report its maiden profit before providing for income tax that amounted to \$1.05 million which represents a \$2.32m or 183% improvement over the previous corresponding period (30 June 2020: loss of \$1.27 million).

Key highlights:

- Revenue from ordinary activities for the year 30 June 2021 was \$16.54 million, up 123% compared to last year at \$7.40 million.
- Net Sales Revenue (revenue after excise) for period was \$12.92 million, up 98% year on year.
- Lark achieved an average Net Sales Revenue per Litre of \$216, up 55% Year on year from \$139 per litre.
- Gross Margin as a % of Net Revenue was 52% which represents an improvement year on year of 5.1 ppts.
- Litres under maturation increased by 54% to 1,093,073 as at 30 June 2021, from 711,313 litres as at 30 June 2020.

Lark Distilling Co. - Litres of Whisky Incl Settling as at June 2021 at 43% ABV			
FY Maturing	Litres of Whisky at Maturation at 43% ABV	Liquidation Value Today	Net Sales Value at Maturation Date (\$216/litre)
2022	113,004	\$ 24,408,802	\$ 24,408,802
2023	145,753	\$ 25,505,745	\$ 31,482,627
2024	214,227	\$ 28,703,507	\$ 46,273,047
2025	204,033	\$ 18,970,967	\$ 44,071,218
2026	245,837	\$ 12,776,978	\$ 53,100,792
2027+	170,219	\$ 3,404,379	\$ 36,767,304
Grand Total	1,093,073	\$ 113,770,379	\$ 236,103,791

Value at Cost June 2021	\$20,356,155
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The maturation market value is based on an estimated future net sales value which is equal to what the Group's net sales value achieved today. The market value presented has an inherent risk in that the estimated net sales value will be achieved on maturation, therefore consideration needs to be given to market conditions at that point in time

- The value of the Whisky Bank based on maintaining the F21 NSR per Litre of \$216 is estimated at \$236m.
- During the period Lark received multiple awards and recognition for the quality of its products, including being nominated as one of four distillers for Worldwide Whisky Producer of the Year. In addition, 28 medals were received recognising multiple SKUs from the Core & Limited Release portfolio from numerous Whisky bodies and organisations around the world.

Financial Position

The net assets of Lark remain strong at \$50.40 million as at 30 June 2021 (an increase of \$13.02 million from 30 June 2020).

This increase is largely due to the following:

- Profit before income tax for the year of \$1.05 million; driven by the following:

- Gross profit of \$8.65 million;
- Other income of \$0.72 million;
- Operating expenses of \$8.05 million;
- Net finance costs of \$0.27 million.

- Lark's net assets were strengthened via institutional placement of \$8.85 million completed in September 2020.

- Lark's working capital (current assets less current liabilities) is \$15.10 million at 30 June 2021 (30 June 2020: \$9.00 million).

Lark Distilling Co. Ltd
Directors' report
30 June 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Lark Distilling Co. Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

Directors

The following persons were directors of Lark Distilling Co. Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr David Dearie (Non-Executive Chairman)
Mr Geoff Bainbridge (Managing Director)
Mr Warren Randall (Non-Executive Director)
Ms Laura McBain (Non-Executive Director)
Mr Laurent Ly (Non-Executive Director) - resigned on 22 April 2021

Principal activities

The principal activities of the Group during the year ended 30 June 2021 were in the further development of investment opportunities in the Australian craft distilling industry and management of current equity investments in this industry, including the operation of the Lark, Nant, and Forty Spotted Distilleries.

Dividends

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

Significant changes in the state of affairs

On 3 July 2020 Lark Distilling Co. Ltd announced the appointment of Alex Aleksic as the Chief Financial Officer of the group.

On 18 September 2020, Lark Distilling Co. Ltd successfully raised \$8.85 million via an institutional placement of shares. Total shares issued as part of this placement were 8,052,334 at a price of \$1.10 per share. The proceeds raised under the placement will be used to fund the inventory build of Lark's whisky under maturation. The new shares issued were settled on 23 September 2020.

On 22 April 2021, Lark Distilling Co. Ltd announced that Mr Laurent Ly resigned as Non-executive Director.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

On 1 July 2021 Lark Distilling Co. announced details of the renewal of the Company's Managing Director, Geoff Bainbridge's Service Contract including the issue of additional Performance Rights, being the issue of 40,000 Tranche 2 and 35,000 Tranche 3 shares, subject to shareholder approval.

On 12 July 2021 Lark Distilling Co. announced the issue of 20,000 shares at \$3.23, issued in relation to an incentive to accelerate the Lark on-premises distribution strategy.

Also on 12 July 2021, Lark Distilling Co. announced the exercise of 8,337 options into shares at an exercise price of \$2.25.

On 2 August 2021, Lark Distilling Co. announced the expiry of 102,776 options at various exercise prices.

On 1 September 2021, Lark Distilling Co. announced the exercise of 8,337 options into shares at an exercise price of \$2.25.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Lark Distilling Co. Ltd
Directors' report
30 June 2021

Environmental regulation

The consolidated Group's operations are not subject to significant environmental regulation under a law of China, or of the Commonwealth or of a state or territory of Australia. During the financial year, the Directors have not been notified or are aware to be in breach of any environmental regulations.

Information on directors

Name: Mr David Dearie
Title: Non-Executive Chairman
Qualifications: MHCIMA, Glasgow College of Food and Technology, Institute of Marketing Diploma, University of Hull
Experience and expertise: A global beverage industry leader with over 30 years experience in alcohol retailing, distribution and brand building. Founding CEO of Treasury Wines estates Ltd (TWE), and senior executive positions with Fosters Group Ltd and Brown-Forman.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Member of the Audit and Risk Committee, and member of the Remuneration and Nomination Committee.
Interests in shares: 50,000 fully paid ordinary shares
Interests in rights: 680,000 performance rights

Name: Mr Geoff Bainbridge
Title: Managing Director
Qualifications: Bachelor of Business from RMIT with a major in Accounting and ASIC Graduate Certificate in Applied Finance
Experience and expertise: Over 10 years at Fosters Group Pty Ltd with experience in group strategy and business development in Australia, China, India and Vietnam; and Managing Director for the domestic Continental Sprints business. Sales and marketing specialist across a portfolio of brands including founding partner of Grill'd Burgers, Bounce Trampolines, Happy Socks and Studio Ongarato and extensive experience in business and people strategy across multiple sectors and geographies.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: 3,474,033 (shares are held directly and indirectly by GJ Bainbridge Pty Ltd (Bainbridge Super No. 1) and Bainbridge Family Pty Ltd (Bainbridge Family A/C))
Interests in rights: 960,000 performance rights

Name: Mr Warren Randall
Title: Non-Executive Director
Qualifications: Bachelor of Agricultural Science & Wine Science(Adelaide), Bachelor of Oenology (Wine Science) (Charles Sturt)
Experience and expertise: 43 years in the Australian Wine Industry graduating from Adelaide University in Agricultural Science and Charles Sturt University in Wine Science, with experience working for Seppelt Great Western Winery, Andrew Garrett Wines, Tinlins Wines, Wynns Winegrowers, Seaview Champagne Cellars and Lindemans Wines. Warren was also appointed a Director of the board at the Adelaide Football Club.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: Chair of Remuneration and Nomination Committee, member of the Audit and Risk Committee
Interests in shares: 2,389,295 (shares are all held by Seppeltsfield Pty Ltd (Seppeltsfield Estate A/C))
Interests in rights: 300,000 performance rights

Lark Distilling Co. Ltd
Directors' report
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Name: Ms. Laura McBain
Title: Non-Executive Director
Experience and expertise: Brand, marketing and strategy leader for Asia-Pacific FMCG businesses with accounting background. MD/CEO of Bellamy's Australia from 2007 to 2017 pioneering Australia's infant formula brands in China. MD of Maggie Beer Holdings Ltd 2017 to 2019, leading several acquisitions and integrations of premium food businesses into public company. Strategic advisor to nutrition businesses and former director of Export Finance Australia (Australia's government export credit agency). 2013 Telstra Australian Business Woman of the Year (Private and Corporate) and Telstra Tasmanian Business Woman of the year. Holds a Bachelor of Commerce and completed IMD Leadership Challenge 2013 and IESE/Wharton/CEIBS Global CEO program 2017.

Other current directorships: Capitol Health Limited (ASX:CAJ) (appointed 1 July 2021)
Former directorships (last 3 years): Maggie Beer Holdings Limited (ASX:MBH) (resigned 27 November 2019)
Special responsibilities: Chair of Audit and Risk Committee, member of the Remuneration and Nomination Committee

Interests in shares: 29,000 (shares all held by Vermilion 21 Pty Ltd (McNelhaus Super Fund A/C))
Interests in rights: 90,000 performance rights

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Chief Financial Officer

Mr. Alex Aleksic, CPA

Alex Aleksic is a senior business strategist and advisor with more than 20 years experience in commercial, operational and financial roles within multinationals, ASX Top 50 organisations, Private Equity and High Networth ownership structures. He was Chief Financial Officer at Accent Group, which owns a variety of brands including Platypus, HYPE DC, Skechers & VANS and Shaver Shop. Alex has also held numerous senior multi-discipline roles within Goodyear Dunlop (Beaurepaires), Telstra, Coles and Kodak Australasia.

Company secretary

Ms Melanie Leydin – BBus (Acc. Corp Law) CA FGIA

Melanie Leydin holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a member of the Institute of Chartered Accountants, Fellow of the Governance Institute of Australia and is a Registered Company Auditor. She graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of Leydin Freyer. The practice provides outsourced company secretarial and accounting services to public and private companies across a host of industries including but not limited to the Resources, technology, bioscience, biotechnology and health sectors.

Melanie has over 25 years' experience in the accounting profession and over 15 years as a Company Secretary. She has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of Companies and shareholder relations.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2021, and the number of meetings attended by each director were:

	Directors' Meetings		Audit and Risk Committee	
	Attended	Held	Attended	Held
Mr David Dearie	8	8	-	-
Mr Geoff Bainbridge	8	8	-	-
Mr Warren Randall	7	8	-	-
Mr Laurent Ly	6	8	3	3
Ms Laura McBain	7	8	3	3

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

Remuneration Policy

The remuneration policy of the Company has been designed to align key management personnel objectives with shareholder and business objectives. The board of the Company believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration policy, setting the terms and conditions for the key management personnel, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, with the potential for options and other incentives. Options to be issued at the discretion of the Board.
- The remuneration committee reviews key management personnel packages annually by reference to the consolidated group's performance and executive performance.

The performance of key management personnel is reviewed annually and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and option incentives are issued at the discretion of the Board. Any incentives or bonuses must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of other key management personnel executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel are also entitled to participate in the employee share and option arrangements

The key management personnel who are under employee agreements receive a superannuation guarantee contribution required by the government, which is currently 10%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to key management personnel is valued at the cost to the company and expensed, shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by key management personnel. Options are valued using Monte-Carlo or Black-Scholes methodology.

Lark Distilling Co. Ltd
Directors' report
30 June 2021

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of non executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was as outlined in the Company's Initial Public Offering prospectus of \$300,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external parties as well as the fees paid to non executive directors of comparable companies when undertaking the annual review process. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

Key Management Personnel Remuneration Policy

The board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain key management of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the following directors of Lark Distilling Co. Ltd:

- Mr David Dearie (Non-Executive Chairman)
- Mr Geoff Bainbridge (Managing Director)
- Mr Warren Randall (Non-Executive Director)
- Mr Laurent Ly (Non-Executive Director) - resigned on 22 April 2021
- Ms Laura McBain (Non-Executive Director)

And the following person:

- Mr Alex Aleksic (Chief Financial Officer) - appointed on 3 July 2020

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
2021	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Mr David Dearie	85,000	-	-	-	-	155,207	240,207
Mr Warren Randall (c)	50,000	-	-	-	-	49,769	99,769
Mr Laurent Ly (a)	40,556	-	-	-	-	-	40,556
Ms Laura McBain	50,000	-	-	-	-	8,129	58,129
<i>Executive Directors</i>							
Mr Geoff Bainbridge	350,000	-	-	-	-	232,170	582,170
<i>Other KMP</i>							
Mr Alex Aleksic (b)	399,984	-	-	-	-	12,592	412,576
	975,540	-	-	-	-	457,867	1,433,407

Lark Distilling Co. Ltd
Directors' report
30 June 2021

- (a) Mr Laurent Ly resigned as the Non-executive Director on 22 April 2021
(b) Mr Alex Aleksic was appointed as the Chief Financial Officer on 3 July 2020.
(c) The Group made purchases amounting to \$288,217 (June 2020: \$73,084) from an entity associated with Mr Warren Randall (Non-Executive Director). These transactions were for the purchase of wooden barrels from Seppeltsfield Wines Pty Ltd (ABN: 97 127 078 282) for the Group to use in its' production process of Lark. These transactions are considered to be arms-length transactions

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Superannuation	Long service leave	Equity-settled	
2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Mr Warren Randall (f)	50,000	-	-	-	-	47,670	97,670
Mr Laurent Ly (a)	41,667	-	-	-	-	47,670	89,337
Ms Laura McBain (b)	4,167	-	-	-	-	-	4,167
<i>Executive Directors</i>							
Mr David Dearie (d)	122,917	-	-	-	-	187,501	310,418
Mr Geoff Bainbridge (c)	324,247	-	-	-	-	168,433	492,680
<i>Other KMP</i>							
Mr Brendan Waights (e)	121,953	-	-	10,490	-	-	132,443
	664,951	-	-	10,490	-	451,274	1,126,715

- (a) Mr Laurent Ly was appointed 2 September 2019. Fees for the period were paid through director services company Spica Capital on behalf of Laurent Ly.
(b) Ms Laura McBain was appointed 25 May 2020.
(c) Mr Geoff Bainbridge was appointed into the executive role of Managing Director effective 4 October 2019.
(d) Mr David Dearie was appointed into the executive role of Executive Chairman effective 4 October 2019 to 1 May 2020, Non-executive Chairman from that day forward.
(e) Mr Brendan Waights resigned 31 August 2019. The cash salary figure above includes \$71,250 paid in relation to Mr Waights resignation.
(f) The Group made purchases amounting to \$73,084 (June 2019: NIL) from an entity associated with Mr Warren Randall (Non-Executive Director). These transactions were for the purchase of wooden barrels from Seppeltsfield Wines Pty Ltd (ABN: 97 127 078 282) for the Group to use in its' production process of Lark. These transactions are considered to be arms-length transactions.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Mr David Dearie
Title: Non-Executive Chairman
Agreement commenced: 4 October 2019
Term of agreement: No fixed term
Details: Remuneration: \$85,000 per annum
Time commitment to board meetings, meetings of Board committees and general meetings.
In a prior year, Mr Dearie was issued 1,180,000 Performance Rights. As at 30 June 2021, the following Performance Rights remained on issue, with terms and conditions as noted, and with an expiry of 31 December 2026:

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Directors' report
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Tranche no.	Target market share price	and continuous service to:	Performance rights to vest
Tranche 2	\$1.650	31 December 2021	60,000
Tranche 3	\$1.950	31 December 2022	70,000
Tranche 4	\$2.250	31 December 2022	200,000
Tranche 5	\$2.550	31 December 2023	350,000

Name: Mr Geoff Bainbridge
 Title: Managing Director
 Agreement commenced: 4 October 2019
 Term of agreement: No fixed term
 Details: Remuneration: \$300,000 per annum
 Time commitment: 3 days per week
 Executive role responsibilities: direct management and oversight of operations; investor relations.
 In addition to the above, in a prior year, Mr Bainbridge was issued 1,060,000 Performance Rights. As at 30 June 2021, the following Performance Rights remained on issue, with terms and conditions as detailed and with an expiry date of 31 December 2026:

Tranche no.	Target market share price	and continuous service to:	Performance rights to vest
Tranche 2	\$1.650	31 December 2021	50,000
Tranche 3	\$1.950	31 December 2022	60,000
Tranche 4	\$2.250	31 December 2022	350,000
Tranche 5	\$2.550	31 December 2023	500,000

Name: Mr Warren Randall
 Title: Non-Executive Director
 Agreement commenced: 21 May 2019
 Term of agreement: No fixed term
 Details: Remuneration: \$50,000 annual directors fee (excluding GST)
 In a prior year, Mr Randall was issued 300,000 Performance Rights. As at 30 June 2021, the following Performance Rights remained on issue, with terms and conditions as detailed and with an expiry date of 31 December 2026:

Tranche no.	Target market share price	and continuous service to:	Performance rights to vest
Tranche 4	\$2.250	31 December 2022	100,000
Tranche 5	\$2.550	31 December 2023	200,000

Name: Ms Laura McBain
 Title: Non-Executive Director
 Agreement commenced: 1 June 2020
 Term of agreement: No fixed term
 Details: Remuneration: \$50,000 annual directors fee (excluding GST). During the year, Ms Laura McBain was granted the following performance rights, however they are subject to issue upon shareholder approval.

Tranche no.	Target market share price	and continuous service to:	Performance rights to vest
Tranche 4	\$2.25	December 2023	45,000
Tranche 5	\$2.55	December 2024	45,000

Lark Distilling Co. Ltd
Directors' report
30 June 2021

Name: Mr Alex Aleksic
 Title: Chief Financial Officer
 Agreement commenced: 3 July 2020
 Term of agreement: No fixed term
 Details: Mr Alex Aleksic's remuneration is paid through Right Size Advisory.
 During the year Mr Alex Aleksic was granted the following performance rights. They were issued subsequent to year end.

Tranche no.	Target market share price	and continuous service to:	Performance rights to vest
Tranche 3	\$1.95	December 2022	20,000
Tranche 4	\$2.25	December 2023	50,000
Tranche 5	\$2.55	December 2024	65,000

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2021.

Options

There were no options issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2021.

Performance rights

Details of performance rights over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

Name	Grant date	Expiry date	Number granted	Value granted \$	Value vested \$	Number lapsed / disposed	Value lapsed \$
Alex Aleksic	12 February 2021	31 December 2026	105,000	88,077	12,539	-	-
Laura McBain*	25 June 2021	31 December 2026	90,000	70,902	8,129	-	-
Alex Aleksic**	25 June 2021	31 December 2026	30,000	21,631	53	-	-

* Mr Alex Aleksic's performance rights were announced post year end, on 1 July 2021.

** Ms Laura McBain's performance rights are subject to approval by shareholders and have not been issued as of signing date.

Lark Distilling Co. Ltd
Directors' report
30 June 2021

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Share price hurdle for vesting	Fair value per right at grant date
25 November 2019	31 December 2021	31 December 2026	\$1.650	\$1.04700
25 November 2019	31 December 2022	31 December 2026	\$1.950	\$1.00200
25 November 2019	31 December 2023	31 December 2026	\$2.250	\$0.96300
25 November 2019	31 December 2024	31 December 2026	\$2.550	\$0.95100
12 February 2021	31 December 2021	31 December 2026	\$1.650	\$1.44900
12 February 2021	31 December 2022	31 December 2026	\$1.950	\$1.38500
12 February 2021	31 December 2023	31 December 2026	\$2.250	\$1.34400
12 February 2021	31 December 2024	31 December 2026	\$2.550	\$1.28200
25 June 2021	31 December 2022	31 December 2026	\$1.950	\$3.27000
25 June 2021	31 December 2023	31 December 2026	\$2.250	\$3.27000
25 June 2021	31 December 2024	31 December 2026	\$2.550	\$3.27000

Performance rights granted carry no dividend or voting rights.

Additional information

The earnings of the Group for the five years to 30 June 2021 are summarised below:

	2021 \$	2020 \$	2019 \$	2018 \$	2017 \$
Sales revenue	16,542,984	7,302,136	5,523,207	428,476	96,570
Profit / (loss) after income tax	3,441,475	(1,272,296)	(4,327,069)	(3,388,235)	(2,637,474)

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Mr David Dearie	-	-	50,000	-	50,000
Mr Geoff Bainbridge	3,069,033	-	405,000	-	3,474,033
Mr Warren Randall	2,389,295	-	-	-	2,389,295
Mr Laurent Ly*	4,748,373	-	-	(4,748,373)	-
Ms Laura McBain	11,000	-	18,000	-	29,000
Mr Alex Aleksic	-	-	-	-	-
	10,217,701	-	473,000	(4,748,373)	5,942,328

* Mr Laurent Ly resigned as the Non-executive Director on 22 April 2021.

Lark Distilling Co. Ltd
Directors' report
30 June 2021

Performance rights holding

The number of performance rights over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Mr David Dearie	1,180,000	-	(50,000)	(450,000)	680,000
Mr Geoff Bainbridge	1,060,000	-	(100,000)	-	960,000
Mr Warren Randall	300,000	-	-	-	300,000
Mr Laurent Ly*	300,000	-	-	(300,000)	-
Ms Laura McBain**	-	90,000	-	-	90,000
Mr Alex Aleksic***	-	135,000	-	-	135,000
	-	-	-	-	-
	<u>2,840,000</u>	<u>225,000</u>	<u>(150,000)</u>	<u>(750,000)</u>	<u>2,615,000</u>

* Mr Laurent Ly resigned as the Non-executive Director on 22 April 2021. The balance of performance rights held lapsed on resignation

** Ms Laura McBain's performance rights are based on grant date as per offer acceptance date during the year, however issue date is subject to shareholder approval.

*** Mr Alex Aleksic's performance rights are based on grant date as per offer acceptance during the year, however they were issued subsequent to year end.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Lark Distilling Co. Ltd under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
2 November 2020	31 December 2022	\$2.250	216,667

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares under performance rights

Unissued ordinary shares of Lark Distilling Co. Ltd under performance rights at the date of this report are as follows:

Grant date*	Expiry date	Number
17/12/2019	31/12/2026	1,940,000
16/03/2020	31/12/2026	323,333
12/02/2021	31/12/2026	595,000
25/06/2021	31/12/2026	265,000
		<u>3,123,333</u>

* Grant date used for accounting purposes; performance rights dated 12/02/2021 and 25/06/2021 were issued on 01/07/2021.

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other body corporate.

Lark Distilling Co. Ltd
Directors' report
30 June 2021

Shares issued on the exercise of options

The following ordinary shares of Lark Distilling Co. Ltd were issued during the year ended 30 June 2021 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
22 May 2018	\$0.900	138,046
22 May 2018	\$1.125	138,046
22 May 2018	\$1.350	138,046
22 May 2018	\$2.250	8,337
22 May 2018	\$2.250	8,337
		<u>430,812</u>

Shares issued on the exercise of performance rights

The following ordinary shares of Lark Distilling Co. Ltd were issued during the year ended 30 June 2021 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
25 November 2019	\$0.000	150,000

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

Officers of the company who are former partners of Deloitte Touche Tohmatsu

There are no officers of the company who are former partners of Deloitte Touche Tohmatsu.

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.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

Lark Distilling Co. Ltd
Directors' report
30 June 2021

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



David Dearie
Non-Executive Chairman

30 September 2021

For personal use only

Lark Distilling Co. Ltd
Level 1
30 Argyle Street
Hobart TAS 7000

30 September 2021

Dear Board Members

Lark Distilling Co. Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Lark Distilling Co. Ltd.

As lead audit partner for the audit of the financial statements of Lark Distilling Co. Ltd for the financial year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Carl Harris
Partner
Chartered Accountant

For personal use only

Lark Distilling Co. Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Note	Consolidated 2021 \$	2020 \$
Revenue			
Revenue	5	16,542,984	7,426,459
Cost of sales	9	<u>(7,888,608)</u>	<u>(3,384,365)</u>
Gross profit		<u>8,654,376</u>	<u>4,042,094</u>
Other income	6	723,022	748,803
Expenses			
Selling and distribution expenses	9	(1,889,273)	(824,856)
Administration expenses	7	(2,981,975)	(2,401,675)
Employee benefit expense	8	(2,985,221)	(2,541,438)
Depreciation and amortisation	10	<u>(205,798)</u>	<u>(127,068)</u>
Operating profit/(loss)		1,315,131	(1,104,140)
Finance income	11	2,167	19,117
Finance costs	12	<u>(271,343)</u>	<u>(187,273)</u>
Profit/(loss) before income tax benefit		1,045,955	(1,272,296)
Income tax benefit	13	<u>2,395,520</u>	<u>-</u>
Profit/(loss) after income tax benefit for the year attributable to the owners of Lark Distilling Co. Ltd	9	3,441,475	(1,272,296)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>376</u>	<u>447</u>
Other comprehensive income for the year, net of tax		<u>376</u>	<u>447</u>
Total comprehensive income / (loss) for the year attributable to the owners of Lark Distilling Co. Ltd		<u><u>3,441,851</u></u>	<u><u>(1,271,849)</u></u>
		Cents	Cents
Basic earnings per share	39	5.66	(2.34)
Diluted earnings per share	39	5.35	(2.34)

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

Lark Distilling Co. Ltd
Statement of financial position
As at 30 June 2021

	Note	Consolidated 2021 \$	2020 \$
Assets			
Current assets			
Cash and cash equivalents	14	7,645,874	6,119,362
Trade and other receivables	15	2,394,945	1,532,937
Inventories	16	7,840,235	4,950,050
Prepaid assets	17	708,089	21,244
Total current assets		<u>18,589,143</u>	<u>12,623,593</u>
Non-current assets			
Inventories	18	17,981,665	14,329,411
Property, plant and equipment	19	8,434,320	7,907,617
Right-of-use assets	20	1,643,857	206,930
Intangibles	21	11,224,514	11,229,315
Deferred tax	22	2,501,104	-
Total non-current assets		<u>41,785,460</u>	<u>33,673,273</u>
Total assets		<u>60,374,603</u>	<u>46,296,866</u>
Liabilities			
Current liabilities			
Trade and other payables	23	2,927,061	3,054,055
Financial liabilities	26	214,427	423,612
Employee benefits	24	262,594	150,263
Total current liabilities		<u>3,404,082</u>	<u>3,627,930</u>
Non-current liabilities			
Trade and other payables		-	17,247
Borrowings	25	5,000,000	5,000,000
Financial liabilities	26	1,534,163	176,060
Employee benefits	24	38,092	98,531
Total non-current liabilities		<u>6,572,255</u>	<u>5,291,838</u>
Total liabilities		<u>9,976,337</u>	<u>8,919,768</u>
Net assets		<u>50,398,266</u>	<u>37,377,098</u>
Equity			
Issued capital	27	58,498,886	49,475,985
Reserves	28	1,100,504	543,712
Accumulated losses	29	(9,201,124)	(12,642,599)
Total equity		<u>50,398,266</u>	<u>37,377,098</u>

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

Lark Distilling Co. Ltd
Statement of changes in equity
For the year ended 30 June 2021

Consolidated	Issued capital \$	Reserves \$	Retained profits \$	Total equity \$
Balance at 1 July 2019	49,361,969	47,641	(11,370,303)	38,039,307
Loss after income tax benefit for the year	-	-	(1,272,296)	(1,272,296)
Other comprehensive income for the year, net of tax	-	447	-	447
Total comprehensive income / (loss) for the year	-	447	(1,272,296)	(1,271,849)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 27)	114,016	-	-	114,016
Share-based payments (note 40)	-	495,624	-	495,624
Balance at 30 June 2020	<u>49,475,985</u>	<u>543,712</u>	<u>(12,642,599)</u>	<u>37,377,098</u>
Consolidated	Issued capital \$	Reserves \$	Retained profits \$	Total equity \$
Balance at 1 July 2020	49,475,985	543,712	(12,642,599)	37,377,098
Profit after income tax benefit for the year	-	-	3,441,475	3,441,475
Other comprehensive income for the year, net of tax	-	376	-	376
Total comprehensive income for the year	-	376	3,441,475	3,441,851
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs and tax (note 27)	8,556,996	-	-	8,556,996
Share-based payments (note 40)	-	556,416	-	556,416
Issue of shares on exercise of unlisted options	465,905	-	-	465,905
Balance at 30 June 2021	<u>58,498,886</u>	<u>1,100,504</u>	<u>(9,201,124)</u>	<u>50,398,266</u>

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

Lark Distilling Co. Ltd
Statement of cash flows
For the year ended 30 June 2021

	Note	Consolidated 2021 \$	2020 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		17,589,777	8,348,262
Payments to suppliers and employees (inclusive of GST)		(8,669,289)	(3,858,586)
Purchase of inventory		(15,778,286)	(7,887,738)
Interest paid		(271,343)	(163,315)
Interest received		2,167	33,385
Government grants received		751,878	-
Net cash used in operating activities	38	<u>(6,375,096)</u>	<u>(3,527,992)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(774,007)	(1,330,644)
Payments for intangibles		(13,094)	(244,996)
Proceeds from sale of property, plant and equipment		150,000	6,000
Net cash used in investing activities		<u>(637,101)</u>	<u>(1,569,640)</u>
Cash flows from financing activities			
Proceeds from issue of shares		8,857,503	-
Share issue transaction costs		(406,091)	-
Proceeds from the exercise of options		465,905	-
Proceeds from borrowings		-	5,000,000
Repayment of financial liabilities		(296,915)	(490,354)
Payment of lease liabilities under AASB 16		(81,693)	(23,958)
Net cash from financing activities		<u>8,538,709</u>	<u>4,485,688</u>
Net increase/(decrease) in cash and cash equivalents		1,526,512	(611,944)
Cash and cash equivalents at the beginning of the financial year		<u>6,119,362</u>	<u>6,731,306</u>
Cash and cash equivalents at the end of the financial year	14	<u><u>7,645,874</u></u>	<u><u>6,119,362</u></u>

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

Lark Distilling Co. Ltd
Notes to the financial statements
30 June 2021

Note 1. General information

The financial statements cover Lark Distilling Co. Ltd (previously Australian Whisky Holdings Limited) as a Group consisting of Lark Distilling Co. Ltd and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Lark Distilling Co. Ltd's functional and presentation currency.

Lark Distilling Co. Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

Level 1
30 Argyle Street
Hobart TAS 7000

Principal place of business

Level 1
30 Argyle Street
Hobart TAS 7000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 September 2021. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements cover Lark Distilling Co. Limited ("Company") and its controlled entities as a consolidated entity ("Group"). Lark Distilling Co. Limited is a company limited by shares, incorporated and domiciled in Australia. Compliance with Australian Accounting Standards ensures that the financial statements and notes of Australian Whisky Holdings Limited and its controlled entities comply with International Financial Reporting Standards (IFRS). Australian Whisky Holdings Limited is a for profit entity for the purpose of preparing the financial statements.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

New or amended Accounting Standards and Interpretations adopted

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Significant accounting policies (continued)

Financial Instruments

Financial Assets

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Non-current investments are measured on the cost basis to the extent they represent investments in wholly owned subsidiaries which are consolidated in accordance with note 2. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed by comparing the underlying net assets to carrying value recognised in the Company.

Impairment of financial assets

The Group recognises lifetime expected credit losses for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime expected credit losses ("ECL") when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Note 2. Significant accounting policies (continued)

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities that are not

(i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at fair value through profit or loss ("FVTPL"), are measured subsequently at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition

Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognized in profit or loss.

Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

Principles of consolidation

A controlled entity is any entity that the Company has the power to control the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in note 36 to the consolidated financial statements. All controlled entities have a June financial year-end, except for Awei Liquor Industries Beijing Limited (former name Beijing Montec Commercial Limited), which has a December year end; and Australian Whisky Holdings (HK) Limited (former name Montec International (HK) Limited), which has a March year end.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered the consolidated group during the year, their operating results have been included from the date control was obtained.

All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed to ensure consistencies with those policies applied by the parent entity.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Lark Distilling Co. Ltd's functional and presentation currency.

Note 2. Significant accounting policies (continued)

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Exchange differences arising on the translation of monetary items are recognised in the statement of Profit or Loss and other Comprehensive Income.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of Profit or Loss and other Comprehensive Income. Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period, where this approximates the rate at date of transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of Financial Position. These differences are recognised in the statement of Profit or Loss and other Comprehensive Income in the period in which the operation is disposed.

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 2. Significant accounting policies (continued)

Lark Distilling Co. Ltd (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the 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. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Monte Carlo or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 21. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including:

- the forecasting of future cash flows (driven by litres available for sale and price achieved per litre)
- the discount rates applicable to the future cash flows and
- expected growth rates.

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into three operating segments: whisky, gin, and other. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The operations of the Group in management of equity investments is consistent with the Groups' strategy to continue its investment and growth in both whisky ("Lark" as the hero brand) and gin ("Forty Spotted Gin"). Whisky and gin are assessed as separate segments by the CODM due to the differences in production processes, inventory life cycle, market categories, working capital requirements and financial contribution to the Group. The "other" segment is representative of function's that attribute to Group results but are not directly attributable to whisky or gin segments, and include hand sanitiser sales. Operating segments are therefore split into the three segments; Lark, Gin and other.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers

During the year ended 30 June 2021, approximately 23% of the Group's external revenue was derived from sales to one customer (FY20: 19%).

Operating segment information

Consolidated - 2021	Whisky \$	Gin \$	Other \$	Total \$
Revenue				
Sales to external customers	11,705,953	3,764,285	1,072,745	16,542,983
Other revenue	723,022	-	-	723,022
Interest income	2,167	-	-	2,167
Total revenue	<u>12,431,142</u>	<u>3,764,285</u>	<u>1,072,745</u>	<u>17,268,172</u>
EBITDA	1,151,315	50,584	321,197	1,523,096
Depreciation and amortisation	(164,638)	(30,870)	(10,290)	(205,798)
Finance costs	(217,074)	(40,701)	(13,568)	(271,343)
Profit/(loss) before income tax benefit	<u>769,603</u>	<u>(20,987)</u>	<u>297,339</u>	<u>1,045,955</u>
Income tax benefit				2,395,520
Profit after income tax benefit				<u>3,441,475</u>

Note 4. Operating segments (continued)

Consolidated - 2020	Whisky \$	Gin \$	Other \$	Total \$
Revenue				
Sales to external customers	4,889,830	1,360,944	1,175,685	7,426,459
Other revenue	748,803	-	-	748,803
Total revenue	<u>5,638,633</u>	<u>1,360,944</u>	<u>1,175,685</u>	<u>8,175,262</u>
EBITDA	(29,364)	(685,711)	(261,996)	(977,071)
Depreciation and amortisation	(82,594)	(25,414)	(19,060)	(127,068)
Finance costs	(165,259)	(1,656)	(1,242)	(168,157)
Loss before income tax benefit	<u>(277,217)</u>	<u>(712,781)</u>	<u>(282,298)</u>	<u>(1,272,296)</u>
Income tax benefit				-
Loss after income tax benefit				<u>(1,272,296)</u>

Note 5. Revenue

	Consolidated 2021 \$	2020 \$
Whisky revenue	11,705,953	4,889,832
Gin revenue	3,764,285	1,360,944
Other revenue	<u>1,072,746</u>	<u>1,175,683</u>
	<u>16,542,984</u>	<u>7,426,459</u>

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and returns, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined and consistently applied using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Sale of goods

Revenue derived from all sale of inventories to customers are recognised at the time of delivery, except for online sales which are recognised on dispatch of goods.

All revenue is stated net of the amount of goods and services tax (GST).

Note 5. Revenue (continued)

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is a combination of Hospitality sales of Non-Lark products, as well as Slainte, Brandy, Rum & Sanitiser and is recognised when it is received or when the right to receive payment is established.

Note 6. Other income

	Consolidated	
	2021	2020
	\$	\$
R&D grant income	92,878	30,185
Government grant income	451,000	336,457
Excise rebates	100,000	100,000
Gain on sale of Overeem brand	-	165,000
Other income	79,144	117,161
	<u>723,022</u>	<u>748,803</u>

Government grant income

Government grant income relates to \$351,000 of JobKeeper and \$100,000 of Cashflow Boost payments received in response to COVID-19.

Gain on sale of Overeem brand

On 19 February 2020 the Group executed a binding Heads of Agreement with Sawford Distillery Pty Ltd for the sale of the Overeem Single Malt Whisky trademark and limited whisky inventory.

Note 7. Administration expenses

	Consolidated	
	2021	2020
	\$	\$
Inventory losses	578,910	-
Directors' fees	575,885	542,997
Consulting fees	440,558	499,728
Insurance costs	356,908	112,967
Occupancy costs	337,428	234,674
Travel, transport and entertainment	132,967	98,840
Legal fees	120,634	336,307
IT and communications	42,388	48,476
Other administration and corporate costs	396,297	527,686
	<u>2,981,975</u>	<u>2,401,675</u>

Note 8. Employee benefit expense

	Consolidated	
	2021	2020
	\$	\$
Salaries and wages	2,236,849	1,784,508
Share based payments expense	556,416	495,624
Superannuation	109,817	158,345
Other employee expenses	30,858	50,996
Movement in employee benefit provisions	51,281	51,965
	<u>2,985,221</u>	<u>2,541,438</u>

Note 9. Profit / loss before income tax expense

	Consolidated	
	2021	2020
Profit / loss before income tax determined after		
Cost of goods sold	(7,888,608)	(3,260,042)
Directors and consulting fees	(1,016,443)	(1,042,725)
Selling and marketing expenses	(1,889,273)	(824,857)
Legal fees	(120,634)	(336,307)
Occupancy costs	(337,428)	(234,674)
Transport, travel and entertainment	(132,912)	(98,840)
	<u>(11,385,298)</u>	<u>(5,797,445)</u>

Note 10. Depreciation and amortisation

	Consolidated	
	2021	2020
	\$	\$
Depreciation of property, plant and equipment	97,304	48,097
Amortisation of intangibles	17,895	47,135
Depreciation of right-of-use assets	90,599	31,836
	<u>205,798</u>	<u>127,068</u>
Depreciation capitalised into inventory	<u>235,785</u>	<u>171,406</u>

Note 11. Finance income

	Consolidated	
	2021	2020
	\$	\$
Interest income	<u>2,167</u>	<u>19,117</u>

Note 12. Finance costs

	Consolidated	
	2021	2020
	\$	\$
Interest expense	259,563	147,672
Bank and other fees	11,780	39,601
	<u>271,343</u>	<u>187,273</u>

Note 13. Income tax benefit

	Consolidated	
	2021	2020
	\$	\$
<i>Income tax benefit</i>		
Deferred tax - origination and reversal of temporary differences	(2,395,520)	-
Aggregate income tax benefit	<u>(2,395,520)</u>	<u>-</u>
Deferred tax included in income tax benefit comprises:		
Increase in deferred tax assets (note 22)	(2,395,520)	-
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Profit/(loss) before income tax benefit	1,045,955	(1,272,296)
Tax at the statutory tax rate of 26% (2020: 27.5%)	271,948	(349,881)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	144,668	148,687
R&D offset income	(23,684)	(8,300)
Cashflow boost	(26,000)	-
Other	38,317	-
	405,249	(209,494)
Tax losses not recognised	-	209,494
Prior period tax losses now recognised	(2,321,500)	-
Year 1 deferred tax assets and liabilities now recognised	(479,269)	-
Income tax benefit	<u>(2,395,520)</u>	<u>-</u>

	Consolidated	
	2021	2020
	\$	\$
<i>Amounts credited directly to equity</i>		
Deferred tax assets (note 22)	(105,584)	-
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	18,177,860	27,106,708
Potential tax benefit @ 26% (2020: 27.5%)	<u>4,726,244</u>	<u>7,454,345</u>

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed and future taxable profits are available to offset against the carry forward tax losses.

Lark Distilling Co. Ltd
Notes to the financial statements
30 June 2021

Note 13. Income tax benefit (continued)

The franking account balance as at 30 June 2021 was NIL (June 2020: NIL).

Note 14. Current assets - cash and cash equivalents

	Consolidated	
	2021	2020
	\$	\$
Cash on hand	2,410	3,767
Cash at bank	7,643,464	6,115,595
	<u>7,645,874</u>	<u>6,119,362</u>

Accounting policy for cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

Note 15. Current assets - trade and other receivables

	Consolidated	
	2021	2020
	\$	\$
Trade receivables	2,306,857	1,228,265
Other receivables	40,609	279,376
Expected future credit losses	(8,082)	(20,828)
Deposits paid	55,561	46,124
	<u>2,394,945</u>	<u>1,532,937</u>

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

Note 16. Current assets - inventories

	Consolidated	
	2021	2020
	\$	\$
Raw materials - at cost	1,736,215	1,486,300
Work in progress - at cost	2,299,983	784,961
Finished goods - at cost	1,163,852	346,094
Inventory in casks	2,801,691	2,332,695
Provision for obsolescence	(161,506)	-
	<u>7,840,235</u>	<u>4,950,050</u>

Accounting policy for inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'weighted average' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable. Work in progress inventory reflects whisky and gin currently in production but not yet bottled or barrelled.

Note 16. Current assets - inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 17. Current assets - Prepaid assets

	Consolidated	
	2021	2020
	\$	\$
Prepaid wood	98,716	-
Prepaid packaging and other	609,373	21,244
	<u>708,089</u>	<u>21,244</u>

Note 18. Non-current assets - inventories

	Consolidated	
	2021	2020
	\$	\$
Inventory in casks	<u>17,981,665</u>	<u>14,329,411</u>

Non-current inventory represents whisky in casks that is expected to be maturing for at least a further 12 months. The company does not expect these casks to be decanted or sold within the next 12 months.

Note 19. Non-current assets - property, plant and equipment

	Consolidated	
	2021	2020
	\$	\$
Land - at cost	4,564,644	4,564,644
Impairment	(529,683)	(529,683)
	<u>4,034,961</u>	<u>4,034,961</u>
Building improvements - at cost	515,743	166,885
Less: Accumulated depreciation	(66,265)	(11,421)
	<u>449,478</u>	<u>155,464</u>
Plant, equipment & production assets - at cost	4,345,421	3,689,468
Less: Accumulated depreciation	(1,097,433)	(888,931)
	<u>3,247,988</u>	<u>2,800,537</u>
Motor vehicles - at cost	154,044	154,044
Less: Accumulated depreciation	(92,800)	(82,639)
	<u>61,244</u>	<u>71,405</u>
Capital work in progress	<u>640,649</u>	<u>845,250</u>
	<u>8,434,320</u>	<u>7,907,617</u>

Note 19. Non-current assets - property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Land and building \$	Building improvement \$	Plant, equipment and production assets \$	Motor vehicle \$	Capital WIP \$	Total \$
Balance at 1 July 2019	4,034,961	100,039	2,584,868	82,608	-	6,802,476
Additions	-	64,231	560,716	-	845,250	1,470,197
Disposals	-	-	(26,644)	-	-	(26,644)
Transfer to intangible	-	-	(118,909)	-	-	(118,909)
Depreciation expense (through profit or loss)	-	(8,806)	(28,088)	(11,203)	-	(48,097)
Depreciation expense (capitalised to inventory)	-	-	(171,406)	-	-	(171,406)
Balance at 30 June 2020	4,034,961	155,464	2,800,537	71,405	845,250	7,907,617
Additions	-	2,360	241,089	-	616,343	859,792
Capitalised to inventory	-	-	(229,401)	(6,384)	-	(235,785)
Transfers in/(out)	-	346,142	474,802	-	(820,944)	-
Depreciation expense	-	(54,488)	(39,039)	(3,777)	-	(97,304)
Balance at 30 June 2021	<u>4,034,961</u>	<u>449,478</u>	<u>3,247,988</u>	<u>61,244</u>	<u>640,649</u>	<u>8,434,320</u>

Accounting policy for property, plant and equipment

Items of property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Freehold land is not depreciated.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit and loss.

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Freehold improvements	2.5%
Office and computer equipment	25% - 33%
Plant, machinery & production assets	5% - 33%
Motor vehicles	10% - 20%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Note 20. Non-current assets - right-of-use assets

	Consolidated	
	2021	2020
	\$	\$
Land and buildings - right-of-use	1,766,452	238,766
Less: Accumulated depreciation	<u>(122,595)</u>	<u>(31,836)</u>
	<u><u>1,643,857</u></u>	<u><u>206,930</u></u>

The Group leases land and buildings for its offices, warehouses and retail outlets under agreements of 5 years with, options to extend up to an additional 10 years. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The incremental borrowing rate applicable to the leases ranged from 2.7% to 5.45%.

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Land and building right- of-use \$	Total \$
Balance at 1 July 2019	-	-
Additions	238,766	238,766
Depreciation expense	<u>(31,836)</u>	<u>(31,836)</u>
Balance at 30 June 2020	206,930	206,930
Additions	1,527,526	1,527,526
Depreciation expense	<u>(90,599)</u>	<u>(90,599)</u>
Balance at 30 June 2021	<u><u>1,643,857</u></u>	<u><u>1,643,857</u></u>

Accounting policy for right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Note 21. Non-current assets - intangibles

	Consolidated	
	2021	2020
	\$	\$
Goodwill - at cost	10,934,839	10,934,839
Intangible assets - at cost	474,845	461,752
Less: Accumulated amortisation	<u>(185,170)</u>	<u>(167,276)</u>
	<u>289,675</u>	<u>294,476</u>
	<u><u>11,224,514</u></u>	<u><u>11,229,315</u></u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill \$	Other intangibles \$	Total \$
Balance at 1 July 2019	10,934,839	96,633	11,031,472
Additions	-	126,069	126,069
Capitalisation of costs	-	118,909	118,909
Amortisation expense	<u>-</u>	<u>(47,135)</u>	<u>(47,135)</u>
Balance at 30 June 2020	10,934,839	294,476	11,229,315
Additions	-	30,000	30,000
Disposals	-	(15,957)	(15,957)
Amortisation expense	<u>-</u>	<u>(18,844)</u>	<u>(18,844)</u>
Balance at 30 June 2021	<u><u>10,934,839</u></u>	<u><u>289,675</u></u>	<u><u>11,224,514</u></u>

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Note 21. Non-current assets - intangibles (continued)

Goodwill

Goodwill is carried at cost less any accumulated impairment losses.

Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
 - (ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
 - (iii) the acquisition date fair value of any previously held equity interest;
- over the acquisition date fair value of any identifiable assets acquired and liabilities assumed.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective note to the financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored and not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

Other intangible assets

Other intangible assets including patents and trademarks and the whisky barrel fund, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised. The estimated useful lives for current and comparative periods are as follows:

Intangible asset	Useful life
Intangible assets	5-8 years

Note 21. Non-current assets - intangibles (continued)

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Note 22. Non-current assets - deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	Consolidated	
	2021	2020
	\$	\$
<i>Deferred tax liabilities comprises taxable temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Fixed assets and right of use assets	(530,099)	-
Prepayments	(27,955)	-
	<u>(558,054)</u>	<u>-</u>
Total deferred tax liability recognised in profit or loss	<u>(558,054)</u>	<u>-</u>
	Consolidated	
	2021	2020
	\$	\$
<i>Deferred tax asset comprises deductible temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Tax losses	2,122,071	-
Provisions and accruals	148,970	-
Other liabilities	443,389	-
Capital raising costs	226,543	-
Foreign exchange	12,601	-
	<u>2,953,574</u>	<u>-</u>
Total deferred tax asset recognised in profit or loss	<u>2,953,574</u>	<u>-</u>
Amounts recognised in equity:		
Transaction costs on share issue	105,584	-
	<u>105,584</u>	<u>-</u>
Net deferred tax asset	<u>2,501,104</u>	<u>-</u>
<i>Movements:</i>		
Opening balance	-	-
Credited to profit or loss (note 13)	2,395,520	-
Credited to equity (note 13)	105,584	-
	<u>2,501,104</u>	<u>-</u>
Closing balance	<u>2,501,104</u>	<u>-</u>

Note 23. Current liabilities - trade and other payables

	Consolidated	
	2021	2020
	\$	\$
Trade payables	1,825,198	1,010,227
Sundry creditors and accrued expenses	488,299	1,377,569
Other payables	613,564	666,259
	<u>2,927,061</u>	<u>3,054,055</u>

Refer to note 30 for further information on financial instruments.

Note 24. Current liabilities - employee benefits

Current liabilities:

	Consolidated	
	2021	2020
	\$	\$
Employee benefits	<u>262,594</u>	<u>150,263</u>

Non-current liabilities:

	Consolidated	
	2021	2020
	\$	\$
Employee benefits	<u>38,092</u>	<u>98,531</u>

Accounting policy for employee benefits

Short-term employee benefits

Provision is made for the consolidated group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

Contributions are made by the consolidated group to employee superannuation funds and are charged as expenses when incurred.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 25. Non-current liabilities - borrowings

	Consolidated	
	2021	2020
	\$	\$
Loan - Quality Life Pty Ltd	5,000,000	5,000,000

Refer to note 30 for further information on financial instruments.

The key terms of the loan are as follows:

- Facility amount up to AUD \$5,000,000 (fully drawn as at 30 June 2021);
- Term is 5 years after initial drawdown (initial drawdown in March 2020);
- Interest rate of 4% per annum plus the RBA published cash rate paid quarterly;
- Interest only loan with principal due at the end of the term.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2021	2020
	\$	\$
Loan - Quality Life Pty Ltd	5,000,000	5,000,000

Assets pledged as security

The loan is secured by a registered security interest in real property and whisky held by the Group.

Note 26. Financial liabilities

Current:

	Consolidated	
	2021	2020
	\$	\$
Barrel Finance and Logistics	48,877	329,570
Lease liability	134,756	47,026
Motor vehicle lease	30,794	47,016
	<u>214,427</u>	<u>423,612</u>

Non-current:

	Consolidated	
	2021	2020
	\$	\$
Lease liability	1,534,163	176,060

The carrying value of lease liabilities is determined based on cash cost and term of leases, with future lease payments discounted to present value using the Group's assessed incremental borrowing rate.

Maturity analysis of total discounted lease liabilities as at the reporting date are as follows:

Note 26. Non-current liabilities - financial liabilities (continued)

	Consolidated	
	2021	2020
	\$	\$
1 year or less	134,756	47,026
Between 1 and 2 years	139,802	50,187
Between 2 and 5 years	350,228	125,873
Over 5 years	1,044,133	-
	<u>1,668,919</u>	<u>223,086</u>

Accounting policy for financial liabilities

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Note 27. Equity - issued capital

	Consolidated			
	2021	2020	2021	2020
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>63,069,350</u>	<u>54,452,878</u>	<u>58,498,886</u>	<u>49,475,985</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2019	1,630,579,441		49,361,969
Issue of shares to settle liabilities	16 March 2020	2,297,436	\$0.039	89,600
Issue of shares to settle liabilities	16 March 2020	718,121	\$0.034	24,416
Consolidation of shares on 30 for 1 basis	28 April 2020	(1,579,142,120)	\$0.000	-
Balance	30 June 2020	54,452,878		49,475,985
Issue of shares	23 September 2020	8,052,334	\$1.100	8,857,567
Issue of shares on conversion of Performance Rights	7 January 2021	150,000	\$0.000	-
Issue of shares on exercise of unlisted options	12 March 2021	138,046	\$0.900	124,241
Issue of shares on exercise of unlisted options	26 March 2021	138,046	\$1.125	155,302
Issue of shares on exercise of unlisted options	15 April 2021	138,046	\$1.350	186,362
Transactions costs for period		-	\$0.000	(300,571)
Balance	30 June 2021	<u>63,069,350</u>		<u>58,498,886</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Note 28. Equity - reserves

	Consolidated	
	2021	2020
	\$	\$
Foreign currency reserve	48,464	48,088
Share-based payments reserve	1,052,040	495,624
	<u>1,100,504</u>	<u>543,712</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Note 29. Equity - accumulated losses

	Consolidated	
	2021	2020
	\$	\$
Accumulated losses at the beginning of the financial year	(12,642,599)	(11,370,303)
Profit/(loss) after income tax benefit for the year	3,441,475	(1,272,296)
Accumulated losses at the end of the financial year	<u>(9,201,124)</u>	<u>(12,642,599)</u>

Note 30. Financial instruments

a. Financial Risk Management Policy

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries.

The Board and Management monitor risks on a regular basis as part of formal board meeting and ad-hoc management discussion.

i. Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are liquidity risks, foreign currency risk and credit risk.

Liquidity risks

The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions.

Foreign currency risk

The Group does not have any material foreign currency risk exposure.

Note 30. Financial instruments (continued)

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

There are no material amounts of collateral held as security at 30 June 2021.

The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group.

b. Financial Instruments

i. Derivative Financial Instruments

The Group has not participated in the use of any derivative financial instruments during the year.

ii. Financial instrument composition and maturity analysis

The tables below reflect the weighted average effective interest rate on classes of financial assets and financial liabilities:

	Effective Interest Rate 2021 %	Effective Interest Rate 2020 %	Floating Interest Rate 2021 \$	Floating Interest Rate 2020 \$	Non-interest Bearing 2021 \$	Non-interest Bearing 2020 \$	Total 2021 \$	Total 2020 \$
Cash	-	-	-	-	7,645,874	6,119,362	7,645,874	6,119,362
Trade and other receivables	-	-	-	-	2,394,945	1,532,937	2,394,945	1,532,937
Financial liabilities				Fixed Interest Rate 2021 %	Fixed Interest Rate 2020 %		Total 2021	Total 2020
Trade payables				-	-		2,927,061	3,071,302
Loan – Quality Life				4.00%	4.00%		5,000,000	5,000,000
Leases				Implicit interest rate 2021 %	Implicit interest rate 2020 %		Total 2021 \$	Total 2020 \$
Lease – BOQ				10.30%	10.30%		31,400	46,633
Logistics				12.30%	12.30%		48,877	271,560
Operating leases				2.70%	5.45%		1,668,919	233,086

Trade and sundry payables are expected to be paid as follows:

	30 June 2021 \$	30 June 2020 \$
Less than 6 months	2,924,979	3,054,055
Over 6 months	2,082	17,247
	<u>2,927,061</u>	<u>3,071,302</u>

Note 30. Financial instruments (continued)

Interest Rate Risk and Foreign Currency Risk

The Group has not performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date as this risk is not material.

Remaining contractual maturities

The amounts disclosed in the above tables are the maximum amounts allocated to the earliest period in which the guarantee could be called upon. The Group does not expect these payments to eventuate.

Note 31. Key management personnel disclosures

Directors

The following persons were directors of Lark Distilling Co. Ltd during the financial year:

Mr David Dearie	Non-Executive Chairman
Mr Geoff Bainbridge	Managing Director
Mr Warren Randall	Non-Executive Director
Mr Laurent Ly	Non-Executive Director - resigned on 22 April 2021
Ms Laura McBain	Non-Executive Director

Other key management personnel

The following person also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

Mr Alex Aleksic	Chief Financial Officer
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Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2021	2020
	\$	\$
Short-term employee benefits	975,540	664,951
Long-term benefits	-	10,490
Share-based payments	457,867	451,274
	<u>1,433,407</u>	<u>1,126,715</u>

Note 32. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the company:

	Consolidated	
	2021	2020
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	<u>106,500</u>	<u>108,000</u>

Note 33. Commitments

The Group is exploring possible distillery expansion including further barrel storage options, but no decisions have been made in relation to these capital costs as at the date of this report.

There are no other commitments for the Group for the period ended 30 June 2021.

Note 34. Related party transactions

During the period ended 30 June 2021, the Group made purchases amounting to \$288,217 (June 2020: \$73,084) from an entity associated with Warren Randall (Non-Executive Director). These transactions were for the purchase of wooden barrels from Seppeltsfield Wines Pty Ltd (ABN: 97 127 078 282) for the Group to use in its' production process of Lark.

Subsidiaries

Interests in subsidiaries are set out in note 36.

Key management personnel

Disclosures relating to key management personnel are set out in note 31 and the remuneration report included in the directors' report.

Note 35. Parent entity information

Statement of financial position

	Parent	
	2021	2020
	\$	\$
Total current assets	6,363,381	4,500,312
Total assets	55,145,455	44,154,887
Total current liabilities	197,908	197,013
Total liabilities	5,197,908	5,197,013
Equity		
Issued capital	58,498,887	49,475,985
Foreign currency reserve	16,397	16,397
Share-based payments reserve	1,052,040	471,208
Accumulated losses	(9,619,777)	(11,005,716)
Total equity	<u>49,947,547</u>	<u>38,957,874</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021 and 30 June 2020.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Lark Distilling Co. Ltd
Notes to the financial statements
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Note 36. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
Australian Whisky Holdings Bothwell Pty Ltd	Level 1, 30 Argyle Street, Hobart TAS 7000	100.00%	100.00%
Australian Whisky Holdings Services Pty Ltd	Level 1, 30 Argyle Street, Hobart TAS 7000	100.00%	100.00%
Australian Whisky Holdings Management Pty Ltd	Level 1, 30 Argyle Street, Hobart TAS 7000	100.00%	100.00%
Aowei Liquor Industries Beijing Limited (former name Beijing Montec Commercial Limited)	Beijing PRC 100022	100.00%	100.00%
Australian Whisky Holdings (HK) Limited (former name Montec International (HK) Limited)	Kowloon, Hong Kong	100.00%	100.00%
Lark Distillery Pty Ltd	40 Denholms Road, Cambridge, TAS 7170	100.00%	100.00%

Note 37. Events after the reporting period

On 1 July 2021 Lark Distilling Co. announced details of the renewal of the Company's Managing Director, Geoff Bainbridge's Service Contract including the issue of additional Performance Rights, being the issue of 40,000 Tranche 2 and 35,000 Tranche 3 shares, subject to shareholder approval.

On 12 July 2021 Lark Distilling Co. announced the issue of 20,000 shares at \$3.23, issued in relation to an incentive to accelerate the Lark on-premises distribution strategy.

Also on 12 July 2021, Lark Distilling Co. announced the exercise of 8,337 options into shares at an exercise price of \$2.25.

On 2 August 2021, Lark Distilling Co. announced the expiry of 102,776 options at various exercise prices.

On 1 September 2021, Lark Distilling Co. announced the exercise of 8,337 options into shares at an exercise price of \$2.25.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 38. Reconciliation of profit/(loss) after income tax to net cash used in operating activities

	Consolidated	
	2021	2020
	\$	\$
Profit/(loss) after income tax benefit for the year	3,441,475	(1,272,296)
Adjustments for:		
Depreciation and amortisation	205,798	298,492
Movement in deferred taxes recognised to equity	105,584	-
Payables settled via share issue	-	114,016
Non-cash share based payments	556,792	496,071
Change in operating assets and liabilities:		
Increase in trade and other receivables	(862,008)	(862,490)
Increase in inventories	(6,542,439)	(4,503,373)
Increase in deferred tax assets	(2,501,104)	-
Decrease/(increase) in prepayments	(686,845)	18,124
Increase in other provisions	51,892	29,110
Decrease in financial assets	-	300,000
Decrease/Increase in trade creditors and accruals	(144,241)	1,854,354
Net cash used in operating activities	<u>(6,375,096)</u>	<u>(3,527,992)</u>

Note 39. Earnings per share

	Consolidated	
	2021	2020
	\$	\$
Profit/(loss) after income tax attributable to the owners of Lark Distilling Co. Ltd	<u>3,441,475</u>	<u>(1,272,296)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	60,808,172	54,381,840
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	336,111	-
Performance rights over shares	3,203,334	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>64,347,617</u>	<u>54,381,840</u>
	Cents	Cents
Basic earnings per share	5.66	(2.34)
Diluted earnings per share	5.35	(2.34)

Note 40. Share-based payments

A share option plan has been established by the Group and approved by shareholders at a general meeting, whereby the Group may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the company to certain key management personnel of the Group. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

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Note 40. Share-based payments (continued)

Set out below are summaries of options granted under the plan:

2021

Grant date	Expiry date	Exercise price*	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
22/05/2018	30/05/2021	\$0.900	138,046	-	(138,046)	-	-
22/05/2018	30/05/2021	\$1.125	138,046	-	(138,046)	-	-
22/05/2018	30/05/2021	\$1.350	138,046	-	(138,046)	-	-
22/10/2018	01/11/2020	\$0.960	103,842	-	-	(103,842)	-
28/11/2017	31/07/2021	\$2.250	141,667	-	-	(38,891)	102,776
02/11/2020	31/12/2022	\$2.250	-	233,335	-	-	233,335
			<u>659,647</u>	<u>233,335</u>	<u>(414,138)</u>	<u>(142,733)</u>	<u>336,111</u>

2020

Grant date	Expiry date	Exercise price*	Balance at the start of the year	Granted	Expired	Expired/ forfeited/ other**	Balance at the end of the year
31/12/2017	30/11/2019	\$1.830	14,983,337	-	(14,983,337)	-	-
31/12/2017	17/10/2019	\$1.140	3,724,975	-	(3,724,975)	-	-
22/05/2018	30/05/2021	\$0.900	4,141,380	-	-	(4,003,334)	138,046
22/05/2018	30/05/2021	\$1.125	4,141,380	-	-	(4,003,334)	138,046
22/05/2018	30/05/2021	\$1.350	4,141,380	-	-	(4,003,334)	138,046
22/10/2018	01/11/2020	\$0.960	3,115,265	-	-	(3,011,423)	103,842
28/11/2017	31/07/2021	\$2.250	4,250,000	-	-	(4,108,333)	141,667
			<u>38,497,717</u>	<u>-</u>	<u>(18,708,312)</u>	<u>(19,129,758)</u>	<u>659,647</u>

* Exercise price includes the effects of the 30 for 1 consolidation completed in April 2020.

** Movement as a result of the 30 for 1 consolidation completed in April 2020.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.07 years (June 2020: 0.86 years).

The options issued during the period were calculated using the following inputs in a Hoadley ESO2 option valuation model:

Item	Range
Expected volatility (%)	65%
Risk free interest rate (%)	0.14%
Expected life of options (years)	2 years
Expected dividends	Nil
Exercise price (\$)	\$2.25
Share price at grant date (\$)	\$1.35

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Note 40. Share-based payments (continued)

Set out below are summaries of performance rights granted under the plan:

2021

Grant date	Expiry date	Vesting hurdle	Balance at the start of the year	Granted*	Converted	Expired/ forfeited other changes	Balance at the end of the year
25/11/2019	31/12/2026	\$1.350	150,000	-	(150,000)	-	-
25/11/2019	31/12/2026	\$1.650	110,000	-	-	-	110,000
25/11/2019	31/12/2026	\$1.950	130,000	-	-	-	130,000
25/11/2019	31/12/2026	\$2.250	950,000	-	-	(300,000)	650,000
25/11/2019	31/12/2026	\$2.550	1,500,000	-	-	(450,000)	1,050,000
16/03/2020	31/12/2026	\$1.650	200,000	-	-	(66,667)	133,333
16/03/2020	31/12/2026	\$1.950	180,000	-	-	(110,000)	70,000
16/03/2020	31/12/2026	\$2.250	160,000	-	-	(96,667)	63,333
16/03/2020	31/12/2026	\$2.550	140,000	-	-	(83,334)	56,666
12/02/2021	31/12/2026	\$1.950	-	90,000	-	-	90,000
12/02/2021	31/12/2026	\$2.250	-	248,332	-	-	248,332
12/02/2021	31/12/2026	\$2.550	-	256,668	-	-	256,668
25/06/2021	31/12/2026	\$2.250	-	88,334	-	-	88,334
25/06/2021	31/12/2026	\$2.550	-	176,666	-	-	176,666
			<u>3,520,000</u>	<u>860,000</u>	<u>(150,000)</u>	<u>(1,106,668)</u>	<u>3,123,332</u>

* Performance rights granted during the year based on offer accepted date. 770,000 of these options were issued subsequent to year end on 1 July 2021, with the remainder to be issued upon shareholder approval.

2020

Grant date	Expiry date	Vesting hurdle*	Balance at the start of the year	Granted	Exercised	Effect of share consolidation*	Balance at the end of the year
25/11/2019	31/12/2026	\$1.350	-	4,500,000	-	(4,350,000)	150,000
25/11/2019	31/12/2026	\$1.650	-	3,300,000	-	(3,190,000)	110,000
25/11/2019	31/12/2026	\$1.950	-	3,900,000	-	(3,770,000)	130,000
25/11/2019	31/12/2026	\$2.250	-	28,500,000	-	(27,550,000)	950,000
25/11/2019	31/12/2026	\$2.550	-	45,000,000	-	(43,500,000)	1,500,000
16/03/2020	31/12/2026	\$1.650	-	6,000,000	-	(5,800,000)	200,000
16/03/2020	31/12/2026	\$1.950	-	5,400,000	-	(5,220,000)	180,000
16/03/2020	31/12/2026	\$2.250	-	4,800,000	-	(4,640,000)	160,000
16/03/2020	31/12/2026	\$2.550	-	4,200,000	-	(4,060,000)	140,000
			<u>-</u>	<u>105,600,000</u>	<u>-</u>	<u>(102,080,000)</u>	<u>3,520,000</u>

* Exercise price includes the effects of the 30 for 1 consolidation completed in April 2020.

** Movement as a result of the 30 for 1 consolidation completed in April 2020.

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 5.5 years (June 2020: 6.5 years).

Note 40. Share-based payments (continued)

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Vesting hurdle	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
12/02/2021	31/12/2026	\$1.510	\$1.950	60.00%	-	0.41%	\$1.38500
12/02/2021	31/12/2026	\$1.510	\$2.250	60.00%	-	0.41%	\$1.34400
12/02/2021	31/12/2026	\$1.510	\$2.550	60.00%	-	0.41%	\$1.28200
25/06/2021	31/12/2026	\$3.270	\$2.250	55.00%	-	0.77%	\$3.27000
25/06/2021	31/12/2026	\$3.270	\$2.550	55.00%	-	0.77%	\$3.27000

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Lark Distilling Co. Ltd
Directors' declaration
30 June 2021

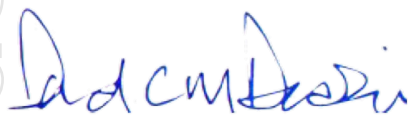
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial 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.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



David Dearie
Non-Executive Chairman

30 September 2021

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Independent Auditor's Report to the Members of Lark Distilling Co Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Lark Distilling Co. Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2021, 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the 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 in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Valuation of whisky inventory</i></p> <p>At 30 June 2021, Lark has reported inventories of \$25,821,900 of which \$7,840,235 is classified as current and \$17,981,665 is classified as non-current. The accounting policy for inventory is disclosed in note 16.</p> <p>Inventory is classified as either current or non-current based on its stage in the maturation life-cycle, with inventory classified as current being ready for bottling and sale within 12 months of year end and inventory requiring maturing for a period greater than 12 months of year end being classified as non-current.</p> <p><i>AASB 102: Inventories</i> requires the cost of inventories to comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.</p> <p>The long life cycle of whisky inherently increases the audit risk associated with the valuation of inventory as costs are required to be capitalized to whisky under maturation over a number of financial years and elements of judgement are required.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the inventory production process, lifecycle and cost allocation processes, including identifying and testing key controls; • Testing a sample of new make inventory during the period to a supporting bill of materials; • Testing manufacturing overhead capitalisation against the requirements of <i>AASB 102: Inventories</i>; • Detailed testing of costs capitalised to maturing whisky in the cask during the period; and • Testing that inventory is appropriately recognised at the lower of cost and net realisable value. <p>We have also assessed the appropriateness of the disclosures made in the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's Annual Report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions take to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Lark Distilling Co. Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



Carl Harris
Partner
Chartered Accountants
Hobart, 30 September 2021

Lark Distilling Co. Ltd
Shareholder information
30 June 2021

The shareholder information set out below was applicable as at 29 September 2021

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Ordinary shares		Options over ordinary shares		Performance rights over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	1,132	0.81	-	-	-	-
1,001 to 5,000	803	3.09	2	3.85	-	-
5,001 to 10,000	220	2.57	1	3.85	-	-
10,001 to 100,000	243	11.74	9	92.30	5	9.62
100,001 and over	60	81.79	-	-	9	90.38
	2,458	100.00	12	100.00	14	100.00
Holding less than a marketable parcel	58	-	-	-	-	-

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	% of total shares issued
	Number held	
Quality Life Pty Ltd (The Neill Family A/C)	6,004,513	9.51
HSBC Custody Nominees (Australia) Limited	3,430,054	5.44
Malcolm Property Pty Ltd (Malcolm Property A/C)	3,417,897	5.42
HSBC Custody Nominees (Australia) Limited-Gsco Eca	3,333,333	5.28
Bainbridge Family Pty Ltd (Bainbridge Family A/C)	2,985,478	4.73
National Nominees Limited	2,937,068	4.65
J P Morgan Nominees Australia Pty Limited	2,895,205	4.59
Seppeltsfield Pty Ltd (Sepplesfield Estate A/C)	2,389,295	3.79
C H Malcolm Super Pty Ltd (Malcolm Super Fund A/C)	1,987,147	3.15
Mr Timothy Tulloch Brock Lewis & Mrs Catherine Anne Lewis (Jg Lewis No2 Will A/C)	1,544,166	2.45
Citicorp Nominees Pty Limited	1,518,095	2.41
Mirrabooka Investments Limited	1,449,400	2.30
Fairisle Holdings Pty Limited (The Tilanbi A/C)	1,171,250	1.86
Rhodium Capital Pty Ltd (Rhodium Investment A/C)	1,166,666	1.85
Sandhurst Trustees Ltd (Endeavor Asset Mgmt Mda A/C)	1,075,578	1.70
Suetone Pty Ltd (The Ak Shadforth Family A/C)	1,020,000	1.62
Mark Murton Pty Ltd (Mark Murton P/L S/F A/C)	1,001,666	1.59
Rex Family Pension Plan Pty Ltd (Rex Family Pension Plan A/C)	844,000	1.34
PJ & KE O'Dwyer Super Pty Ltd (Pj & Ke O'Dwyer S/F A/C)	700,000	1.11
Glenlore Super Pty Ltd (Glenlore Super Scheme A/C)	618,578	0.98
	41,489,389	65.77

Unquoted equity securities

There are no unquoted equity securities.

Lark Distilling Co. Ltd
Shareholder information
30 June 2021

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Quality Life Pty Ltd (The Neill Family A/C)	7,156,769	11.34
HSBC Custody Nominees	3,430,054	5.44
Malcolm Property Pty Ltd (Malcolm Property A/C)	3,417,897	5.42
Geoff Bainbridge (Geoff Bainbridge, GJ Bainbridge Super Fund Pty Ltd) (Bainbridge S/F No. 1 A/C & Bainbridge Family Pty Ltd) (Bainbridge Family A/C)	3,474,033	5.51
HSBC Custody Nominees (Australia) Limited GSCO	3,333,333	5.28

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Securities subject to voluntary escrow

Corporate Governance Statement

The Company's 2021 Corporate Governance Statement has been released to ASX on this day and is available on the Company's website at: <https://larkdistillery.com/investor-centre/>

Annual General Meeting and Director Nomination

Lark Distilling Co. Ltd advises that its Annual General Meeting will be held on or about Thursday, 25 November 2021. The time and other details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to ASX immediately upon despatch.

The Closing date for receipt of nomination for the position of Director is Thursday, 7 October 2021. Any nominations must be received in writing no later than 5.00pm (Melbourne time) on This date at the Company's Registered Office. The Company notes that the deadline for nominations for the position of Director is separate to voting on Director elections. Details of the Director's to be elected will be provided in the Company's Notice of Annual General Meeting in due course.