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**ACN 103 014 320**

**NOTICE OF GENERAL MEETING**

**TIME:** 4:00 pm (WST)

**DATE:** 29 June 2009

**PLACE:** 14 Absolon Street, Palmyra, Western Australia

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This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 9331 2300.

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**TIME AND PLACE OF MEETING AND HOW TO VOTE**

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**VENUE**

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The General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 4.00 pm (WST) on 29 June 2009 at:

14 Absolon Street, Palmyra, Western Australia

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**YOUR VOTE IS IMPORTANT**

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The business of the General Meeting affects your shareholding and your vote is important.

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**VOTING IN PERSON**

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To vote in person, attend the General Meeting on the date and at the place set out above.

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**VOTING BY PROXY**

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To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

- (a) post to Gage Roads Brewing Co Limited, PO Box 2024, Palmyra DC WA 6961; or
- (b) facsimile to the Company on facsimile number (+61 8) 9331 2400,

so that it is received not later than 4.00 pm (WST) on 27 June 2009.

**Proxy Forms received later than this time will be invalid.**

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## NOTICE OF GENERAL MEETING

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Notice is given that the General Meeting of Shareholders will be held at 4.00 pm (WST) on 29 June 2009 at 14 Absolon Street, Palmyra, Western Australia.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company at 4.00 pm (WST) on 27 June 2009.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

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## AGENDA

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### 1 RESOLUTION 1 – ISSUE OF SHARES TO WOOLWORTHS LIMITED

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To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purpose of Section 611 Item 7 of the Corporations Act and for all other purposes, approval is given for the Directors to allot and issue 76,410,890 Shares to Woolworths Limited on the terms and conditions in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a party to the transaction or a person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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### 2 RESOLUTION 2 – ELECTION OF DIRECTOR – STEVEN GREENTREE

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To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purpose of clause 13.3 of the Constitution and for all other purposes, Steven Greentree, being eligible, is elected as a Director."*

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### 3 RESOLUTION 3 – RATIFICATION OF PRIOR ISSUE OF SHARES

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To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of 1,107,500 Shares on the terms and conditions set out in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the

meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**DATED: 29 MAY 2009**

**BY ORDER OF THE BOARD**

A handwritten signature in black ink, appearing to read 'J. Hoedemaker', is positioned above the printed name and title.

**JOHN HOEDEMAKER  
COMPANY SECRETARY  
GAGE ROADS BREWING CO LIMITED**

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## EXPLANATORY STATEMENT

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This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the General Meeting to be held at 4.00 pm (WST) on 29 June 2009 at 14 Absolon Street, Palmyra, Western Australia.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

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### 1 RESOLUTION 1 – ISSUE OF SHARES TO WOOLWORTHS LIMITED

#### 1.1 Background

As announced to ASX on 15 May 2009, the Company has entered into a transaction (**Transaction**) with Woolworths Limited (**Woolworths**) pursuant to which:

- (a) the Company has agreed, subject to Shareholder approval and the satisfaction of various other conditions, to issue 76,410,890 Shares (**Placement Shares**) to Woolworths pursuant to a subscription agreement between the parties (**Subscription Agreement**);
- (b) Woolworths has agreed, subject to the issue of Shares pursuant to the Subscription Agreement, to purchase a minimum of 350,000 cases per annum of private label beer, cider or other agreed products from the Company pursuant to a design, manufacturing and supply agreement (**Supply Agreement**); and
- (c) upon the issue of Shares to Woolworths pursuant to the Subscription Agreement, the Company will grant to Woolworths certain rights relating to appointment of directors of the Company and maintenance of its shareholding in the Company, pursuant to a subscriber rights deed (**Subscriber Rights Deed**).

Summaries of the key terms of the Subscription Agreement, the Supply Agreement and the Subscriber Rights Deed are set out respectively in Sections 1.2, 1.3 and 1.4 below.

Resolution 1 seeks Shareholder approval, for the purpose of Item 7 of Section 611 of the Corporations Act and for all other purposes, for the allotment and issue of the Placement Shares to Woolworths (**Placement**).

Whilst the terms of the Supply Agreement and the Subscriber Rights Deed are not themselves subject to Shareholder approval, the terms of these agreements are material to Shareholders in deciding whether or not to pass Resolution 1 as:

- (d) Shareholder approval of the Placement is essential for the Supply Agreement to become effective in the event that Woolworths does not exercise its option to acquire Shares under the Subscription Agreement (refer to Section 1.2(d) below for further details regarding this option); and
- (e) the parties will enter into the Subscriber Rights Deed upon the completion of the Placement.

## 1.2 Summary of Subscription Agreement

The Company and Woolworths have entered into the Subscription Agreement on the following material terms and conditions:

- (a) **(Placement Shares):** subject to the satisfaction of certain conditions precedent, the Company agrees to issue 76,410,890 Shares (**Placement Shares**) to Woolworths and Woolworths agrees to subscribe for the Placement Shares;
- (b) **(Conditions):** the issue of the Placement Shares is conditional upon the passing of Resolutions 1 and 2, and a number of other conditions which have either been satisfied or are standard for an agreement of this nature, including ASX confirming that the operation of the Supply Agreement and Subscriber Rights Deed are not inconsistent with the Listing Rules, or, to the extent required, granting a waiver of the applicable Listing Rules;
- (c) **(Issue price of Placement Shares):** the issue price of the Placement Shares comprises the following two components:
  - (i) the initial component of 1.62 cents per Placement Share (to raise subscription funds of \$1,237,856.42), to be paid upon the issue of the Placement Shares; and
  - (ii) the second contingent component of 0.88 cents per Placement Share (to raise an additional amount of \$672,415.83 and bring the total issue price to 2.5 cents per Placement Share). However, this second component of the issue price is conditional on the following tax loss condition (**Tax Loss Condition**) being satisfied:
    - (A) a tax expert appointed by Woolworths issues an opinion that it is more likely than not that the Company will not be prevented from deducting all tax losses as at 31 December 2009 (or any part thereof) by virtue of the operation of Divisions 165,166 or 175 of the Income Tax Assessment Act 1997; and
    - (B) the Company's auditor certifies to Woolworths that it is satisfied that either:
      - (I) the balance sheet forming part of the Company's accounts for the half-year ending 31 December 2009 lodged (or to be lodged) with ASX has disclosed (or will disclose) a deferred tax asset for carry forward unused tax losses as at 31 December 2009 of not less than \$2,425,810; or
      - (II) the balance sheet forming part of the Company's accounts for the full year ending 30 June 2010 lodged (or to be lodged) with ASX has disclosed (or will disclose) a deferred tax asset for carry forward unused tax losses as at 31 December 2009 of not less than \$2,425,810 (excluding tax losses incurred after 31 December 2009).

If the Tax Loss Condition is satisfied then Woolworths is required to pay this second component within 5 business days after its

satisfaction. If the Tax Loss Condition is not satisfied then this second component will not become payable at all;

- (d) **(Grant of option):** under the Subscription Agreement, Gage Roads has also granted Woolworths an option (**Option**) to subscribe for, and be issued, 32,600,000 Shares (**Option Shares**). Woolworths may exercise this option at any time up to the end of the tenth Business Day following the General Meeting. The acquisition of the Option Shares is not subject to the approval of Shareholders, as approval is not required either pursuant to Section 611 Item 7 of the Corporations Act, or Listing Rule 7.1 (as the Option Shares may be issued under the Company's current annual placement capacity for the purpose of Listing Rule 7.1). However, if Woolworths exercises the Option, and the conditions for the issue of the Placement Shares are subsequently met, the number of Placement Shares to be issued to Woolworths will be reduced by 32,600,000. That is, the maximum number of Shares which Woolworths may be issued pursuant to the Subscription Agreement remains at 76,410,890 Shares. Shareholders should note that if Resolution 1 is not passed, Woolworths may proceed to exercise the Option (in its absolute discretion), and the parties will, in the event the Option is exercised, proceed with the Supply Agreement. In the event that Woolworths decides not to exercise the option the supply agreement will not proceed.
- (e) **(Issue price of Option Shares):** the issue price of the Option Shares comprises of two components:
  - (i) the initial component of 1.62 cents per Option Share (to raise \$528,120), to be paid upon the issue of the Option Shares; and
  - (ii) the second contingent component of 0.88 cents per Option Share (to raise an additional amount of \$286,880 and bring the total issue price to 2.5 cents per Option Share). However, this second component of the issue price is conditional on the satisfaction of the Tax Loss Condition.

If Woolworths has exercised the Option and the Tax Loss Condition is satisfied then Woolworths is required to pay this second component within 5 business days after its satisfaction. If Woolworths has exercised the Option but the Tax Loss Condition is not satisfied then this second component will not become payable at all;
- (f) **(Placement Completion):** completion of the issue of the Placement Shares shall occur two Business Days after the date the last of the conditions precedent has been satisfied or waived, or such other date as the Company and Woolworths agree;
- (g) **(Use of funds):** the Company must use approximately \$702,000 from the funds raised from the issue of the Placement Shares for the purchase, installation and commissioning of capital equipment as set out in the Supply Agreement, with the balance of the funds (up to \$1,208,272.25) to be applied towards operating expenses, general working capital and other uses;
- (h) **(Company representations and warranties):** the Subscription Agreement contains representations and warranties given by the Company to Woolworths which are standard for an agreement of this nature, including the following key warranties:

- (i) the execution, delivery and performance of the Subscription Agreement by the Company does not and will not result in a breach of or default under any agreement to which the Company is party, the Constitution or any law or regulation by which the Company is bound, and constitutes binding and enforceable obligations of the Company;
- (ii) the Placement Shares shall comprise 25% of the issued Share capital of the Company immediately after their issue (assuming that all outstanding Options have been exercised prior to the issue of the Placement Shares);
- (iii) the Option Shares shall comprise 12.45 % of the issued Share capital of the Company immediately after their issue (assuming that all outstanding Options have been exercised prior to the issue of the Option Shares and the Placement Shares are not issued);
- (iv) the Placement Shares and the Option Shares
  - (A) will rank equally in all other Shares and be free of encumbrances;
  - (B) are in a class of securities that were quoted securities at all times in the 3 months prior to the date of the Subscription Agreement and trading in that class of securities on ASX has not been suspended for more than a total of 5 days in the 12 months prior to the date of the Subscription Agreement;
  - (C) are not being issued by the Company for the purpose of resale;
- (v) the Company is in compliance with the Constitution, all applicable laws, the ASX Listing Rules and ASIC policy and is not in breach of any order, judgment or award of any court, tribunal or government agency;
- (vi) no insolvency event has occurred in relation to the Company;
- (vii) as at the date of the Subscription Agreement there is nothing preventing the Company from providing a notice under subsections 708A(5)(e) and (6) of the Corporations Act;
- (viii) the Company's accounts for the half year ended 31 December 2008 give a true and fair view of the financial position and the assets and liabilities of the Company as at that date and the income, expenses and operational results of the Company for the financial period ended on that date, and have been prepared in compliance with the Corporations Act, the Accounting Standards and all other applicable laws and regulations;
- (ix) since 31 December 2008,
  - (D) there has been no event which has or is likely to diminish the EBITDA of the Company by \$60,000 or more, or the net assets of the Company by \$300,000 or more;



- (E) the Company has carried on its business in the ordinary course and has not made any significant change to the nature or scale of any activity comprised in its business, other than the termination of its distribution and convertible note agreements with VOK Beverages Pty Ltd;
- (F) the Company has not issued, bought back or redeemed any Shares or other securities or declared or paid any dividends and has not agreed to do any of those things, other than as disclosed to the ASX;
- (x) all information contained in the due diligence materials provided by the Company to Woolworths is complete and accurate and not misleading or deceptive;
- (xi) the Company has no information that a reasonable person would expect to have a material effect on the price or value of Shares that has not been disclosed to ASX prior to the date of this agreement or that would be required to be disclosed as "excluded information" under subsection 708A(6); and
- (xii) no information publicly disclosed by the Company is in any material respect misleading or deceptive; and
- (i) **(Exclusivity):** subject to the Directors' fiduciary duties to Shareholders, between the date of the Subscription Agreement, and the earlier of:
  - (i) the date on which the Subscription Agreement is terminated; and
  - (ii) the later of the issue of the Placement Shares or the Option Shares,
 the Company must not solicit any proposal from any person other than Woolworths to:
  - (iii) acquire all or a substantial part of the Company's business;
  - (iv) acquire 5% or more of the Company's issued share capital; or
  - (v) acquire control or otherwise merge with the Company.

### 1.3 Summary of Supply Agreement

Pursuant to the Supply Agreement, the Company will produce and supply private label beer, cider or other agreed products (**Products**) to Woolworths on the following material terms and conditions:

- (a) **(Condition precedent):** the Supply Agreement is conditional upon Woolworths being issued either the Placement Shares or the Option Shares pursuant to the Subscription Agreement;
- (b) **(Works):** the Company must complete the capital works expenditure programme as set out in the Supply Agreement within four months from the commencement of the Supply Agreement;
- (c) **(Term):** the initial term of the Supply Agreement is three years from the date the Supply Agreement becomes unconditional. Woolworths and the Company may agree to extend the initial term for a further period of up to two years;

- (d) **(Woolworths' minimum annual commitment):** Woolworths agrees to purchase a minimum of 350,000 cases of Products per year during the term of the Supply Agreement except in the first year of the term where the minimum amount is that proportion of 350,000 cases calculated on a pro rata basis for the period from the completion of the Works to the end of the first year of the term; and
- (e) **(Company's obligation to deliver):** the maximum number of cases of Products that the Company is obliged to deliver in response to purchase orders issued by Woolworths is 30,000 cases of Products per month.

#### 1.4 Summary of Subscriber Rights Deed

Upon the issue of the Placement Shares or the Option Shares (whichever is the earlier), the Company and Woolworths will enter into the Subscriber Rights Deed which includes the following material terms and conditions:

- (a) **(Nomination Right):** the Subscriber Rights Deed provides that Woolworths is entitled to have one nominee on the Board at all times. This nomination right will cease at such time as the relevant interest of the Woolworths Group in the Company falls below 10% for a continuous period of three months; and
- (b) **(Top-Up Rights):** Woolworths will be granted the right to top-up its shareholding in the Company if there is a "diluting event" (i.e. an issue of Shares by the Company other than a pro rata issue) on the following terms:
  - (i) the Company must offer Woolworths that number of Shares (**Top-Up Shares**) which would enable Woolworths to maintain its proportion of share capital in the Company as it was immediately prior to the diluting event;
  - (ii) the Top-Up Shares will rank equally in all respects with all other shares issued under the diluting event;
  - (iii) the price to be paid by Woolworths per Top-Up Share will be the same as the cash consideration paid per share pursuant to the diluting event, or, where cash consideration was not paid for shares under the diluting event, the price to be paid per Top-Up Share by Woolworths will be 100% of the volume weighted average price at which Shares are traded on ASX for the thirty trading days immediately prior to the announcement by the Company of the diluting event;
  - (iv) Woolworths' Top-Up rights will automatically lapse if:
    - (A) the Woolworths Group has a relevant interest in less than 5% of the ordinary shares on issue for a continuous period of 6 months; or
    - (B) the strategic relationship between the Company and any member of the Woolworths Group as contemplated by the Supply Agreement has effectively ceased; and
  - (v) the Company must not, without the prior written consent of Woolworths, issue or agree to issue any Shares or securities to any person other than a member of the Woolworths Group (**Restricted Issue**) which would, or would be reasonably likely to, result in any

approval from Shareholders or ASX being required in connection with any Top-Up Shares the Company would otherwise be required to issue under the Subscriber Rights Deed as a consequence of any such Restricted Issue.

- (vi) Shareholders should note that the grant of the Top-Up Rights is conditional upon ASX granting a waiver of ASX Listing Rule 6.18.

## **1.5 Approval pursuant to Item 7 of Section 611 of the Corporations Act**

### **Section 606 of the Corporations Act – Statutory Prohibition**

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

### **Voting Power**

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person (**second person**) will be an "associate" of the other person (**first person**) if:

- (a) the first person is a body corporate and the second person is:
  - (i) a body corporate the first person controls;
  - (ii) a body corporate that controls the first person; or
  - (iii) a body corporate that is controlled by an entity that controls the person;
- (b) the second person has entered or proposed to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; and
- (c) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the company's affairs.

The associates of Woolworths are as listed in Annexure 2 (**Woolworths Associates**).

### **Relevant Interests**

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (a) are the holder of the securities;

- (b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

As a result of the Placement, Woolworths will acquire a relevant interest in 76,410,890 Shares, which equates to a 25.25% interest in the Company immediately following the issue (assuming that none of the options to subscribe for Shares in existence at the date of the Notice of Meeting have been exercised prior to the issue of Shares to Woolworths).

## 1.6 Reason why Section 611 approval is required

Item 7 of Section 611 of the Corporations Act provides an exception to the prohibition described in Section 1.5 above, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

As at the date of this Notice, Woolworths does not hold any Shares, and is not entitled to hold any Shares (other than upon the exercise of the Option).

The voting power of Woolworths will exceed 20% after the issue of the Placement Shares.

Accordingly, Resolution 1 seeks Shareholder approval for the purpose of Section 611 Item 7 and for all other purposes to enable Woolworths to acquire the Placement Shares.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Placement Shares to Woolworths if approval is obtained under Section 611 Item 7 of the Corporations Act. Accordingly, the issue of the Placement Shares to Woolworths will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

## 1.7 Specific information required by Item 7 of Section 611 of the Corporations Act and Regulatory Guide 74

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of Section 611 of the Corporations Act. Shareholders are also referred to in the Independent Expert's Report prepared by PKF Corporate Advisory Services (WA) Pty Ltd (**PKFCA**) annexed to this Explanatory Statement.

### **Relevant Interests and Voting Power**

The table set out below shows the number of Shares held by Woolworths, and the voting power of Woolworths, both currently and upon the issue of the Placement Shares assuming:

- (a) the Placement is completed; and
- (b) no Shares are issued in the period between the date of the Notice of Meeting and the issue of the Placement Shares, other than the issue of the

<b>Name</b>	<b>Current Holding</b>	<b>Current Voting Power</b>	<b>Holding following the issue of the Placement Shares</b>	<b>Voting Power following the issue of the Placement Shares</b>
Woolworths	Nil	Nil	76,410,890 Shares	25.25%
<b>Total Relevant Interest and Voting Power</b>	<b>Nil</b>	<b>Nil</b>	<b>76,410,890</b>	<b>25.25%</b>

The maximum number of Shares that Woolworths will hold after completion of the Placement is 76,410,890. The maximum voting power that Woolworths will hold as a result of the Placement is 25.25%. This represents an increase from 0% to 25.25%. Each member of the Woolworths Group will have the same voting power in respect of Shares held by Woolworths.

Shareholders should note that Woolworths may exercise the Option to subscribe for, and be issued, 32,600,000 Shares (as described in clause 1.2(d) above) at any time up to the tenth Business Day following the date of the General Meeting, without the need for Shareholder approval. If Woolworths exercises the Option prior to the issue of the Placement Shares, the voting power of the Woolworths Group immediately after the issue of Shares pursuant to the exercise of the Option will be 12.60% (assuming that no other Shares have been issued by the Company in the meantime). If the conditions for the issue of the Placement Shares are subsequently met, the number of Placement Shares to be issued will be reduced by 32,600,000 Shares, so that the maximum number of Shares which Woolworths may acquire pursuant to the Subscription Agreement remains at 76,410,890.

Accordingly, if Woolworths exercises the Option prior to the issue of the Placement Shares and the Placement subsequently takes place then the voting power of the Woolworths Group at a time immediately following the Placement will have increased from 12.60% to 25.25% (assuming that no other Shares have been issued by the Company in the meantime).

Woolworths does not have any associates with relevant interests in the Company's Shares other than as set out herein.

Further details on the voting power of the Woolworths Group are set out in the Independent Expert's Report prepared by PKFCA.

#### ***Intentions of Woolworths in relation to the Company***

Other than as disclosed elsewhere in this Explanatory Statement or as contemplated pursuant to or in accordance with the Supply Agreement, the Company understands that Woolworths:

- (a) has no intention of making any significant changes to the business of the Company;
- (b) does not propose to change the employment arrangements of the present employees of the Company;

- (d) does not have any present intention to inject further capital into the Company (other than pursuant to the Subscription Agreement or upon the possible exercise of its top-up rights under the Subscriber Rights Deed);
- (e) does not intend to transfer any property between the Company and the Woolworths Group or any person associated with any of them (other than pursuant to each of the Subscription Agreement, the Supply Agreement and the Subscriber Rights Deed); and
- (f) has no current intention to change the Company's existing policies in relation to financial matters or dividends.

These statements are based on the present intentions of Woolworths on the basis of facts and information concerning the Company and the existing circumstances that affect the Company that are known to Woolworths at the date of this Explanatory Statement. These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

### **Capital Structure**

The proposed capital structure of the Company following completion of the Placement is as follows:

<b>Shares</b>	<b>Number</b>
Shares on issue at date of this Notice of Meeting	226,232,669
Placement Shares	76,410,890
<b>Total Shares on issue after completion of the Placement*</b>	<b>302,643,559</b>

\* Assuming that no presently existing options to subscribe for Shares have been exercised, and Shares issued upon such exercise, prior to the completion of the Placement. The Company presently has on issue 3,000,000 options (see below).

<b>Options</b>	<b>Number</b>
Options on issue at date of this Notice of Meeting	3,000,000
<b>Total Options on issue after completion of the Placement*</b>	<b>3,000,000</b>

\* Assuming that no presently existing options to subscribe for Shares have been exercised, and Shares issued upon such exercise, prior to the completion of the Placement.

### **Identity, associations and qualifications of proposed directors**

It is proposed that Mr Steven Greentree, an employee of Woolworths, be appointed as a Director as part of the Transaction. Shareholder approval is being sought for the election of Mr Greentree pursuant to Resolution 2.

The experience and qualifications of Mr Greentree is set out in Section 2 of this Explanatory Statement.

Mr Greentree does not own any Shares in the Company.

## ***Interests and Recommendations of Directors***

None of the Directors have any personal interests in the outcome of Resolution 1. All of the Directors are of the opinion that the Transaction is in the best interests of Shareholders and accordingly, the Directors unanimously recommend Shareholders to vote in favour of Resolution 1. The Directors have approved the proposal to put Resolution 1 to Shareholders.

The Director's recommendations are based on the following reasons:

- (a) if the Company does not proceed with the Placement, its cash reserves will continue to be eroded by on-going operating losses. The Transaction will provide a required working capital injection to boost the Company's cash reserves. This becomes more significant given the current economic climate and state of the financial markets where the ability to raise funds via debt or equity has become increasingly difficult for small market capped companies;
- (b) if the Placement is approved, the Supply Agreement will become unconditional and the Company will benefit from the contract to brew a minimum of 350,000 cases of Products per annum for Woolworths except in the first year of the term where the minimum amount is that proportion of 350,000 cases calculated on a pro rata basis for the period from the completion of the Works to the end of the first year of the term. The Supply Agreement is expected to increase the Company's sales volume by eight times, from its current 50,000 cases per annum to an expected minimum of 400,000 cases per annum. As the Company's historical losses are primarily due to lower levels of production and lower sales volumes not sufficiently covering the Company's fixed costs, the expected significant increase in production and sales is more likely to provide for an improved recovery against costs;
- (c) if the Placement is approved, the Company will potentially benefit from the strategic relationship with Woolworths. While Woolworths will have no contractual obligation to sell or stock the Company's own branded products, the Directors consider that there is a possibility that in the future arrangements may be made with Woolworths for distribution of the Company's own branded products through the Woolworths network of retail liquor stores throughout Australia (in addition to the sale of the Woolworths branded beer to be supplied under the Supply Contract);
- (d) if the Placement is approved, Woolworths will become a cornerstone shareholder of Gage Roads. The presence of such a high profile shareholder is likely to increase the Company's own profile among investors and the financial market's interest in the Company;
- (e) the independent expert, PKFCA, has determined the proposed Placement is fair and reasonable to the non-associated Shareholders of the Company assuming both the initial component and the contingent component of the issue price of the Placement Shares is paid by Woolworths. PKFCA has determined that, if only the initial component of the issue price of the Placement Shares is paid by Woolworths, the proposed Placement will be not fair but reasonable to the non-associated Shareholders of the Company. Please refer to Section 1.2(c) for further information on the issue price of the Placement Shares.

### ***Independent Expert's Report***

The Independent Expert's Report prepared by PKFCA assesses whether the Transaction is fair and reasonable to the non-associated Shareholders of the Company. The advantages and disadvantages of the Transaction are outlined in section 11 of the Independent Expert's Report.

The Independent Expert's Report concludes that the Transaction, on balance, is fair and reasonable to the non-associated Shareholders of the Company assuming both the initial component and the contingent component of the issue price of the Placement Shares is paid by Woolworths.

PKFCA has determined that, if only the initial component of the issue price of the Placement Shares is paid by Woolworths, the proposed Placement will be not fair but reasonable to the non-associated Shareholders of the Company. Please refer to Section 1.2(c) for further information on the issue price of the Placement Shares.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

### ***Pro-forma consolidated statement of financial position***

A pro-forma Statement of Financial Position of the Company post the Placement is set out below:



**Gage Roads Brewing Co Limited**  
**PRO-FORMA STATEMENT OF FINANCIAL POSITION**  
**AT 31 MARCH 2009**

	Unaudited 31-Mar-09 \$	Subsequent Adjustments \$	Initial Component Adjustments \$	Contingent Component Adjustments \$	Post Transaction Pro Forma \$
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	872,539	(180,635) <sup>1</sup>	535,856 <sup>2</sup>	672,416 <sup>4</sup>	1,900,176
Trade and other receivables	453,360	-	-	-	453,360
Inventories	634,554	-	-	-	634,554
Total current assets	1,960,453	(180,635)	535,856	672,416	2,988,090
<b>Non-current assets</b>					
Property, plant and equipment	2,491,723	-	702,000 <sup>3</sup>	-	3,193,723
Intangible assets	3,769	-	-	-	3,769
Deferred tax asset	-	-	-	2,425,810 <sup>5</sup>	2,425,810
Total non-current assets	2,495,492	-	702,000	2,425,810	5,623,302
<b>Total assets</b>	<b>4,455,945</b>	<b>(180,635)</b>	<b>1,237,856</b>	<b>3,098,226</b>	<b>8,611,392</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	404,234	-	-	-	404,234
Borrowings	239,616	-	-	-	239,616
Total current liabilities	643,850	-	-	-	643,850
<b>Non-current liabilities</b>					
Borrowings	348,682	(180,635) <sup>1</sup>	-	-	168,047
Total non-current liabilities	348,682	(180,635)	-	-	168,047
<b>Total liabilities</b>	<b>992,532</b>	<b>(180,635)</b>	<b>-</b>	<b>-</b>	<b>811,897</b>
<b>Net assets</b>	<b>3,463,413</b>	<b>-</b>	<b>1,237,856</b>	<b>3,098,226</b>	<b>7,799,495</b>
<b>EQUITY</b>					
Contributed equity	14,573,251	-	1,237,856 <sup>6</sup>	672,416 <sup>6</sup>	16,483,523
Share options reserve	332,738	-	-	-	332,738
Accumulated losses	(11,442,576)	-	-	2,425,810 <sup>5</sup>	(9,016,766)
<b>Total equity</b>	<b>3,463,413</b>	<b>-</b>	<b>1,237,856</b>	<b>3,098,226</b>	<b>7,799,495</b>

Notes:

- Cash balance as at 31 March 2009 subsequently adjusted for convertible note balance of \$180,635 payable to VOK Beverages Pty Ltd as part of terminating the convertible note and distribution agreement with a corresponding reduction in borrowings.
- Cash balance post-Transaction is adjusted for net funds received from total capital raised from only the initial component of the Placement after deducting capital expenditure on plant and equipment.
- Property plant and equipment post-Transaction adjusted for funds to be utilised for the purchase, installation and commissioning of additional capital equipment to fulfil the requirements of the Supply Agreement with Woolworths.
- Cash balance post-Transaction is adjusted for funds received from total capital raised from the contingent component, on the assumption that the Tax Loss Condition is satisfied.
- The estimated value of the deferred tax asset on the assumption that the tax losses can be utilised by the Company.
- Post-Transaction contributed equity adjusted for proceeds received from both the initial and contingent components of the Placement from the placement of 76,410,890 shares to Woolworths on the basis that the tax loss condition is satisfied.

## 2 RESOLUTION 2 – ELECTION OF DIRECTOR – STEVEN GREENTREE

Clause 13.3 of the Constitution allows the Shareholders to elect a person to be a Director by resolution passed in general meeting.

The Subscription Agreement is conditional upon Shareholders passing a resolution approving Mr Steven Greentree being elected and appointed as a Director of the Company.

Accordingly, Resolution 2 seeks Shareholder approval for the election of Mr Greentree as a Director of the Company in accordance with clause 13.3 of the Constitution. Mr Greentree, being eligible, has consented to being appointed as a Director.

The Directors do not have any personal interests in the outcome of Resolution 2. As the Transaction is conditional upon Shareholders approving the election of Mr Greentree, and the Directors are of the opinion that the Transaction is in the best interests of Shareholders, the Directors unanimously recommend Shareholders to vote in favour of Resolution 2. The Directors have approved the proposal to put Resolution 2 to Shareholders.

Steven Greentree is a long term employee of Woolworths having commenced his career as a Management Trainee in the ACT in 1981. Mr Greentree was appointed to his current role in the Liquor Group in December 2007 and has responsibility for all Woolworths retail liquor brands. Prior to his appointment Mr Greentree was the General Manager of Woolworths Private Label and Quality Assurance for Australia and New Zealand, taking on that role following his previous position as General Manager of Marketing for Australian Supermarkets. Mr Greentree has had extensive operations experience having held the positions of Operations Manager and Regional Manager for South Australia and the Northern Territory, and as an Area Manager and Store Manager.

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### **3 RESOLUTION 3 – RATIFICATION OF PRIOR ISSUE OF SHARES**

#### **3.1 General**

On 22 January 2009, the Company issued 1,107,500 Shares at an issue price of one (1) cent per Share to raise \$11,075.

The subscribers pursuant to this issue were not related parties of the Company.

Resolution 3 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares (**Share Ratification**).

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

#### **3.2 Technical information required by ASX Listing Rule 7.5**

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Share Ratification:

- (a) 1,107,500 Shares were allotted;
- (b) the issue price was one (1) cent per Share;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were allotted and issued to the following parties:

<b>Name of subscriber</b>	<b>Number of Shares</b>
Raign Pty Ltd	687,500
Mr Brian James Godfrey & Ms Sophie Jane Raven	220,000
Mr Michael Capaldo	200,000

the funds raised from this issue were used for operational and marketing expenditure and working capital purposes.

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#### **4 ENQUIRIES**

Shareholders may contact the Company Secretary, John Hoedemaker on (+ 61 8) 9331 2300 if they have any queries in respect of the matters set out in these documents.

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## GLOSSARY

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**\$** means Australian dollars.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited.

**ASX Listing Rules** means the Listing Rules of ASX.

**Board** means the current board of directors of the Company.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

**Company** means Gage Roads Brewing Co Limited (ACN 103 014 320).

**Constitution** means the Company's constitution.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** means the current directors of the Company.

**Explanatory Statement** means the explanatory statement accompanying the Notice of Meeting.

**General Meeting** means the meeting convened by the Notice of Meeting.

**Notice of Meeting** or **Notice of General Meeting** means this notice of general meeting including the Explanatory Statement.

**PKFCA** means PKF Corporate Advisory Services (WA) Pty Ltd (ACN 009 423 152).

**Resolutions** means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of a Share.

**Transaction** means the transactions contemplated by the Subscription Agreement, the Supply Agreement and the Subscriber Rights Deed, as summarised in Section 1.1 of the Explanatory Statement.

**Woolworths Group** means Woolworths and the entities it controls as listed in Annexure 2.

**WST** means Western Standard Time as observed in Perth, Western Australia.

26 May 2009

The Directors  
Gage Roads Brewing Co Limited  
PO Box 2024  
Palmyra DC WA 6961

Dear Sirs

## **INDEPENDENT EXPERT'S REPORT**

### **1 INTRODUCTION AND SUMMARY OF OPINION**

- 1.1 You have requested PKF Corporate Advisory Services (WA) Pty Ltd ("**PKFCA**") to provide an independent expert's report ("**IER**" or "**the Report**") to assist non-associated shareholders of Gage Roads Brewing Co Limited ("**Gage Roads**" or "**the Company**") in voting on the Placement of 76,410,890 shares ("**Placement**") to Woolworths Limited ("**Woolworths**") at up to 2.5 cents per share pursuant to a subscription agreement executed on 14 May 2009 ("**Subscription Agreement**"). The Placement will result in Woolworths attaining voting power of 25.25%. This is contemplated by Resolution 1 of the Notice of General Meeting ("**NOM**") and Explanatory Statement ("**ES**") in relation to a General Meeting ("**GM**") scheduled to be held on or around 26 June 2009.
- 1.2 Gage Roads is an Australian company engaged in the brewing, packaging, marketing, and selling of craft brewed beer in Australia and is listed on the Australian Securities Exchange ("**ASX**").
- 1.3 The Placement of 76,410,890 shares to Woolworths will raise up to A\$1.91 million ("**the Transaction**"), and is expected to result in Woolworths holding 25.25% of the Company's total shareholding, thereby requiring shareholders' approval pursuant to s611 of the Corporations Act 2001 ("**Corporations Act**").
- 1.4 To ensure that Woolworths is able to maintain its proportionate shareholding in Gage Roads and appoint a director to the Company, Gage Roads will enter into a subscriber rights deed with Woolworths upon the issue of shares to Woolworths under the Subscription Agreement ("**Subscriber Rights Deed**").
- 1.5 Through a design, manufacturing and supply agreement ("**Supply Agreement**"), Gage Roads has agreed to contract brew and supply a minimum of 350,000 cases per annum of private label beer, cider or other agreed products ("**Products**") to Woolworths.
- 1.6 The IER is required pursuant to Section 611 (Item 7) of the Corporations Act which deals with the approval of an allotment of shares otherwise prohibited by Section 606 of the Corporations Act. Section 606 prohibits a person from acquiring a relevant interest in the issued voting shares if the person's voting power in the company increases from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%.
- 1.7 While the terms of the Supply Agreement and the Subscriber Rights Deed are not themselves subject to shareholders' approval, the terms of these agreements are material to shareholders'

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approval being sought as they are conditional upon Woolworths becoming a shareholder of the Company pursuant to the Subscription Agreement. Acquisition of shares by Woolworths under the Transaction may result in Woolworths' interest in issued voting shares in Gage Roads exceeding 20% of its share capital. Approval is to be sought for a resolution to be passed at the Company's GM at which no votes are to be cast by persons associated with the Transaction.

- 1.8 We understand that the Report will be distributed to Gage Roads' shareholders together with the NOM and ES setting out the details of the Transaction in order to assist non-associated shareholders in voting at the GM of Gage Roads scheduled to be held on or around 26 June 2009.
- 1.9 All amounts referred to in this IER are in Australian dollars unless otherwise indicated.

### Summary of Opinion

- 1.10 **We have considered the terms of the Subscription Agreement in conjunction with the Subscriber Rights Deed and Supply Agreement, and conclude that the Transaction is fair and reasonable to the non-associated shareholders of Gage Roads assuming full amount of funds are raised from the Placement.**

### Assessment of Fairness

- 1.11 The Australian Securities and Investments Commission ("ASIC") Regulatory Guide 111 "Content of Expert Reports" ("RG 111") states, as a criteria to analysing the fairness of a transaction, that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.
- 1.12 The assessment of fairness should also consider the value of the securities being offered (allowing for a minority discount) – being the post-Transaction value of the target entity's (Gage Roads) shares – and the value of the target entity's securities (pre-Transaction), assuming 100% of the target's securities are available for sale.
- 1.13 Under the notional net realisable value ("NRV") approach, the value per share of Gage Roads of \$0.023 post-Transaction (after allowing for minority discount of 10%), is higher than the assessed pre-Transaction fair value of \$0.015 per share. Under the Market approach, the post-Transaction value of \$0.055 per share is higher than the pre-Transaction value of \$0.024 per share.
- 1.14 Based on our comparison of the subscription price of the Placement and option granted to Woolworths with the pre-Transaction value of the shares of Gage Roads, the subscription price of \$0.025 per share is higher than the assessed pre-Transaction fair value of \$0.015 per share under the notional NRV approach and also higher than the assessed pre-Transaction value of \$0.024 per share under the Market approach.
- 1.15 Based on the above assessments assuming full amount of funds are raised from the Placement, we conclude that the Transaction is fair.
- 1.16 However, in the event that the contingent portion of the consideration is not received, we conclude that the Transaction is not fair.

### Assessment of Reasonableness

- 1.17 RG 111 states, as a criteria to analysing transactions whereby as a consequence of a company issuing securities to an allottee, that allottee acquires over 20% of the company, that an offer is 'reasonable' if it is fair.

- 1.18 In accordance with RG 111, the Transaction is reasonable because the Transaction is fair. The reasonableness of the Transaction is further supported by other considerations and additional reasons for the shareholders to vote in favour of the Transaction.

#### Other Considerations

- 1.19 The Transaction would result in a maximum dilution of 25.25% to non-associated shareholders from an initial shareholding of 100% to a post-Transaction shareholding of 74.75%, if Woolworths acquires the maximum number of Gage Roads shares pursuant to the Transaction.
- 1.20 With the strategic relationship with Woolworths, it is possible that Gage Roads may be able to expand into and penetrate a wider market for its own products through the Woolworths network of approximately 1,135 retail liquor stores throughout Australia. Should this occur, it could also reduce the need for a more extensive sales force, in view of the Company's recent termination of its distributor agreement. However, Woolworths is not under any obligation to sell or stock Gage Roads' products.
- 1.21 Gage Roads has a cash balance of approximately \$0.87 million as at 31 March 2009, which is expected to be continually reduced through its annual cash burn due to the Company's losses. The Transaction will provide a required working capital injection to boost the Company's cash reserves. This becomes more significant given the current economic climate and state of financial markets where the ability to raise funds via debt or equity has become increasingly difficult for small capped companies.
- 1.22 As noted in paragraph 8.14 of the Report, Gage Roads has a history of losses, and in the absence of the Supply Agreement, no information has come to our attention, at the time of preparing the Report, that it is probable that the Company is likely to be able to utilise its tax losses. The Supply Agreement is expected to increase Gage Roads' brewing output by eightfold, from its current 50,000 cases per annum to an expected minimum of 400,000 cases per annum. As the Company's historical losses are primarily due to lower levels of production and lower sales volumes not sufficiently covering the Company's fixed costs, the expected significant increase in production and sales is likely to provide for an improved recovery against costs, thereby also providing the Company with the opportunity to potentially utilise its tax losses.
- 1.23 The Supply Agreement is expected to also grow Gage Roads' current production volume, thereby allowing the Company to realise greater economies of scale.
- 1.24 The Supply Agreement is conditional upon Woolworths acquiring shares in Gage Roads under the Subscription Agreement. Accordingly, shareholders' approval for the Placement will be vital for the Supply Agreement to become effective, in the event that Woolworths does not exercise its option to acquire the shares in Gage Roads under the Subscription Agreement.
- 1.25 The complementary nature of the Subscription Agreement, Subscriber Rights Deed and Supply Agreement is considered by Gage Roads to potentially incentivise Woolworths to support and facilitate Gage Roads in its growth plans. This could take the form of increasing Woolworths' contract brewing requirements in the future, retailing Gage Roads' own branded products through its retail liquor stores, as well as possible further strategic alliances and funding. However, Woolworths is not under any obligation to do any of these things.
- 1.26 The Transaction will result in Woolworths being a cornerstone shareholder of Gage Roads. The presence of a high profile shareholder, such as Woolworths, is likely to increase the Company's profile among investors and the financial market's interest in the Company.
- 1.27 Gage Roads recently conducted a renounceable entitlements issue of up to 147,223,446 shares at an issue price of 1.0 cent each on the basis of two shares for every one share held, to raise approximately \$1,472,334. However, only 55% of the shares offered were taken up, resulting in the balance 45% being taken up by the underwriters. We further note that the rights issue price of 1.0 cent is significantly lower than the 2.5 cents subscription price under the



Placement and also lower than the 1.6 cents value should the contingent component of the Placement not materialise. This is explained further in Section 2.

- 1.28 The addition of a Woolworths' representative, Mr Steven Greentree to the Board of Gage Roads will also add liquor and retail expertise to the Company.
- 1.29 Following the Placement, Gage Roads is expected to be a company with increased market capitalisation which may result in investors having a greater interest in Gage Roads' shares. This may also increase the liquidity of the Company's shares.

### **Purpose of the Report**

- 1.30 This Report has been prepared solely for the purpose of assisting the non-associated shareholders of Gage Roads in considering the Transaction, being the acquisition of Gage Roads' shares by Woolworths pursuant to the arrangements set out under the Subscription Agreement as executed by the Directors of Gage Roads. This Report has not been prepared to provide information to parties considering the purchase or sale of any equity or other security in Gage Roads. Accordingly, we do not assume any responsibility or liability for any losses suffered as a result of the use of this Report contrary to the provisions of this paragraph.
- 1.31 The acquisition of the maximum number of shares by Woolworths pursuant to the arrangements set out in the Agreement would take Woolworths shareholding in Gage Roads from a pre-Transaction interest of nil% to a post-Transaction interest of up to 25.25%, therefore requiring non-associated shareholder's approval under s611 of the Corporations Act.
- 1.32 This Report will accompany the NOM and ES, which will be distributed to shareholders of Gage Roads to assist non-associated shareholders in voting at the GM of Gage Roads.

### **Our Approach and Basis of Assessment**

- 1.33 Although the expression "fair and reasonable" is not defined under the Corporations Act, guidance is provided by ASIC Regulatory Guides ("RG") which establish certain guidelines in respect of independent expert's reports required under the Corporations Act.
- 1.34 In particular, RG 74 "Acquisitions Agreed to by Shareholders", RG 111 "Content of Expert Reports", and RG 112 "Independence of Expert's Reports" have been considered.
- 1.35 RG 74 relates to acquisitions agreed to by shareholders and requires an analysis of whether the proposal is fair and reasonable when considered in the context of the interests of the non-associated shareholders.
- 1.36 RG 111 "Content of Expert Reports" establishes certain guidelines in respect of the content of expert reports prepared for transactions under Chapters 5, 6 and 6A of the Act, whether the reports are required by the Act or are commissioned voluntarily.
- 1.37 RG 111 includes guidance prepared for the purposes of Section 611 of the Corporations Act and comments on other control transactions where an issue of shares by a company is otherwise prohibited under Section 606 of the Corporations Act may be approved under item 7 of Section 611 of the Corporations Act and the effect on the company's shareholding is comparable to a takeover bid. In these circumstances, ASIC expects the form of analysis to be undertaken as if it was a takeover bid under Chapter 6 of the Corporations Act.
- 1.38 RG 111.21 states that if a company issues securities in exchange for cash and, as a consequence, the allottee acquires over 20% of the company, the allottee could have achieved the same or a similar outcome by using a cash-rich entity to make a scrip takeover bid for the company.
- 1.39 In this circumstance, the acquisition of the maximum number of shares by Woolworths pursuant to the arrangements set out under the Subscription Agreement will result in Woolworths'



shareholding exceeding 20%. Accordingly, our approach to the analysis of the terms of the Transaction is to consider the meaning of “fair and reasonable” in the context of a takeover bid.

- 1.40 The regulatory guides reflect ASIC’s underlying philosophy that the premium for control of a company be shared by all members of that company. This and other matters have been taken into account in considering the fairness and reasonableness of the terms of the Transaction.
- 1.41 For the purpose of our opinion, the term “fair market value” is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm’s length.
- 1.42 Although Gage Roads is receiving cash under the Transaction, the non-associated shareholders of the Company are not exchanging their shares for cash and will continue to hold shares in the post-Transaction entity of Gage Roads. Therefore, for the purpose of this fairness assessment, we are required to compare the value of the securities being offered (allowing for a minority discount) – in this case the post-Transaction value of Gage Roads – and the value of the target entity’s securities (pre-Transaction), assuming 100% of the securities are available for sale, as guided under paragraphs RG 111.27 and RG 111.28 of RG 111.
- 1.43 Accordingly, we have compared the notional NRV per share of Gage Roads pre-Transaction (assuming 100% ownership) and post-Transaction (after allowing for a minority discount) to assess the fairness of the Transaction.
- 1.44 We have also compared the subscription price of the Placement and option granted to Woolworths with the pre-Transaction value of the shares of Gage Roads.
- 1.45 The pre and post Transaction analysis and the comparison of the subscription price and pre-Transaction value of Gage Roads’ shares is only one element of our assessment. We have also considered other significant factors that are relevant to the decision by the non-associated shareholders to assist in determining the reasonableness of the Transaction. These factors are detailed in Section 11.

#### **Reliance on Information**

- 1.46 This Report is based upon financial and other information provided by Gage Roads. PKFCA has considered and relied upon this information. PKFCA believes the information provided to be reliable, complete and not misleading, and has no reason to believe that any material facts have been withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Transaction is fair and reasonable.
- 1.47 PKFCA does not warrant that its inquiries have identified or verified all of the matters which an audit, extensive examination or full scope “due diligence” investigation might disclose. In any event, an opinion as to whether a transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation. Preparation of this Report does not imply that PKFCA has audited or in any way verified the financial accounts or other records of Gage Roads.
- 1.48 It is understood that the accounting information of Gage Roads provided to PKFCA was prepared in accordance with generally accepted accounting principles, Australian Accounting Standards and, except where noted, prepared in a manner consistent with the method of accounting used by Gage Roads in previous accounting periods, including the application of International Financial Reporting Standards (“IFRS”).
- 1.49 An important part of the information base used in forming an opinion of the kind expressed in this Report is the opinion, judgement and representations of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

- 1.50 Gage Roads has agreed to indemnify PKFCA, PKF WA Partnership, and the directors, partners and employees of PKFCA, PKF WA Partnership and any related entity against any claim arising out of misstatements or omissions in any material supplied by the Company, its subsidiaries, its directors or employees, on which PKFCA has relied for the purposes of this Report.

### **Current Market Conditions**

- 1.51 Our opinion is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time.

### **Individual Circumstances**

- 1.52 PKFCA has not considered the effects of the Transaction on the particular circumstances of individual shareholders. Some individual shareholders may place a different emphasis on various aspects of the Transaction from that adopted in our Report. Accordingly, individuals may reach different conclusions on whether or not the Transaction is fair and reasonable. Non-associated shareholders should consider the opinion of PKFCA in the context of their own circumstances and preferences.
- 1.53 This Report has been prepared and included in the NOM to provide shareholders with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this Report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances, having regard to their objectives, financial situation or needs. Shareholders who are in doubt should consult their own professional adviser.
- 1.54 PKFCA holds an Australian Financial Services Licence. As a holder of an Australian Financial Services Licence, we are required to provide a Financial Services Guide in situations where we may be taken as providing financial product advice to retail clients. A copy of the PKFCA Financial Services Guide is set out in Appendix 2 of this Report.

### **Scope**

- 1.55 This Report has been prepared solely for the purpose of assisting non-associated shareholders of Gage Roads in voting under Resolution 1 of the NOM to which this Report is attached, which relates specifically to the acquisition of Gage Roads shares by Woolworths pursuant to the arrangements set out under the Subscription Agreement. This Report has not been prepared to provide information to parties considering the purchase or sale of any equity or other security in Gage Roads. Accordingly we do not assume any responsibility or liability for any losses suffered as a result of the use of this Report contrary to the provisions of this paragraph.

## **2 TRANSACTION DETAILS**

- 2.1 As set out in the NOM and ES, Gage Roads has entered into (or proposes to enter into) various agreements with Woolworths, pursuant to which:
- the Company has agreed to a Placement of 76,410,890 shares to Woolworths pursuant to the Subscription Agreement between the parties;
  - the Company has agreed to contract brew and supply, and Woolworths has agreed to purchase, a minimum of 350,000 cases of beer per annum for Woolworths pursuant to the Supply Agreement; and

- the Company will grant Woolworths certain rights relating to appointment of a director to the Company and maintenance of its proportionate shareholding in the Company, pursuant to the Subscriber Rights Deed.

2.2 We note the key terms of the Subscription Agreement, Supply Agreement and the Subscriber Rights Deed as follows:

### Subscription Agreement

- 2.3 Under the Subscription Agreement, Gage Roads has granted an option to Woolworths to acquire 32,600,000 shares which can be exercised any time from the Subscription Agreement date up to the tenth business day following the date of the GM. Woolworths may exercise the option without the need for shareholders' approval. The option exercise price has two components, namely, an initial component and a contingent component.
- 2.4 The initial component of the option entitles Woolworths to acquire 32,600,000 at an exercise price of 1.62 cents raising \$528,120. The contingent component of the option is payable upon the satisfaction of the tax loss condition (which relates to the confirmation that the Company's tax losses are more likely than not to be utilisable) being satisfied. The contingent component of the option entitles Gage Roads to receive the balance of \$286,880, which translates to 0.88 cents per share on the 32,600,000 shares acquired. The initial and contingent components of the option provide total cash injection of \$815,500 through the issue of 32,600,000 shares at a combined exercise price of 2.5 cents per share.
- 2.5 Under the Subscription Agreement, Gage Roads has also agreed on a Placement of 76,410,890 Gage Roads shares to Woolworths following shareholders' approval. The Placement price comprises two components, namely, an initial component and a contingent component.
- 2.6 The initial component of the Placement involves the allotment and issue of 76,410,890 shares to Woolworths at a subscription price of 1.62 cents raising \$1,237,856. The contingent component of the Placement is payable upon the satisfaction of the tax loss condition (as described in paragraph 2.4 above) being satisfied. The contingent component of the Placement entitles Gage Roads to receive the balance of \$672,416, which translates to 0.88 cents per share on the 76,410,890 shares acquired. The initial and contingent components of the Placement provide total cash injection of \$1,910,272 through the issue of 76,410,890 shares at a combined exercise price of 2.5 cents per share.
- 2.7 The number of shares allotted and issued on the Placement is dependent upon whether Woolworths exercises its option prior to the Placement. If Woolworths exercises its option prior to the Placement, then only the balance of 43,810,890 shares of the total Placement of 76,410,890 will be allotted and issued on the Placement.
- 2.8 Of the total funds received from the Placement, Gage Roads will use approximately \$702,000 towards capital expenditure required to perform its obligations under the Supply Agreement ("**Capital Expenditure**"), with the balance of the funds applied towards operating expenses, general working capital, costs and capital expenditure required to ensure Woolworths Quality Assurance ("**WQA**") certification at commencement date, and other non specific uses of funds ("**Other Uses**"). However, if only the option proceeds are received, Gage Roads will be obligated under the Subscription Agreement to apply \$528,120 from the proceeds obtained from the initial component of the option towards Capital Expenditure. The balance amount of \$173,880 required for Capital Expenditure will be funded by proceeds from the contingent component of the option if it becomes payable.

### Supply Agreement

- 2.9 Under the Supply Agreement, Woolworths has agreed to purchase a minimum of 350,000 cases of Products per year from Gage Roads over a 3 year initial term and a 2 year option

extension term if the parties agree to a 2 year extension. The key terms of the Supply Agreement are as follows:

- (i) Woolworths must purchase from Gage Roads:
  - a. in the first year of the term, no less than that proportion of 350,000 cases of Products in aggregate calculated on a pro-rata basis; and
  - b. in the second and each subsequent year of the term, no less than 350,000 cases of Products per year in aggregate.
- (ii) Gage Roads must ensure that not less than 360,000 cases of its annual production capacity is to manufacture and supply Products for Woolworths.

### Subscriber Rights Deed

- 2.10 Under the proposed Subscriber Rights Deed, Gage Roads intends to grant Woolworths certain rights upon Woolworths subscribing for shares pursuant to the Subscription Agreement. These rights are as highlighted below:
  - (i) Woolworths may nominate one person to be a director on the Board of directors of Gage Roads; and
  - (ii) in relation to each diluting event, Gage Roads must offer Woolworths the right to subscribe for top-up shares to maintain its proportionate shareholding in the Company.

## 3 GAGE ROADS

### History and Background

- 3.1 Gage Roads is a Western Australian based company founded in 2002, and listed on the Australian Securities Exchange in December 2006.
- 3.2 Gage Roads engages in brewing, packaging, marketing, and selling craft brewed beer in Australia. It offers craft brewed beers under the brands Gage Roads Premium Lager, Gage Roads PILS, Gage Roads India Pale Ale, Wahoo, KUTT and Blue Angel Cider and contract brews a number of premium products for third parties.
- 3.3 We understand that Gage Roads is now one of Australia's largest craft breweries, with an existing brewing capacity of up to 3.5 million litres scalable to 7 million litres.
- 3.4 In April 2008 the Company launched its Wahoo brand, which has grown to be the Company's biggest selling brand at 48% of current sales. Wahoo, which targets a broader consumer palette, represents the first product in Gage Roads' product development strategy.
- 3.5 In July 2008, Gage Roads and Ballydooley Cider Company ("**Ballydooley**") executed a heads of agreement to form a joint venture ("**JV**") to produce a premium quality cider for the Australian market. Ballydooley is an independent cider manufacturer in New Zealand and brings to the JV, expertise and a range of established premium cider recipes using Australian and New Zealand apples. The first JV product, Blue Angel Cider, was released in late December 2008 and is currently stocked by approximately 60 liquor stores in Western Australia.
- 3.6 In early October 2008, the Company launched its KUTT brand, which is a low carbohydrate beer. Gage Roads hopes to improve sales of the KUTT brand through its attractive packaging and graphics.
- 3.7 The Company has previously engaged external liquor distribution agents with the aim to increase sales through a network of outlets nationally. In May 2009 the Company announced its decision to move to a direct distribution model and therefore terminated its existing agency distribution agreement.

### Board of Directors – Gage Roads

- 3.8 The Board of directors of Gage Roads comprises the following 4 directors and an additional director to be elected by Woolworths (collectively referred to as **“the Directors”**).
- 3.9 Mr Ian Olson – Non Executive Chairman. Mr Olson is an experienced Chartered Accountant whose career in the accounting profession (practice areas include corporate advisory, audit and assurance and management consulting) has spanned over 18 years. He is now owner and Executive Chairman of the King Group, a diversified surveying, drafting, mapping and GIS business. Ian was appointed Non-Executive Chairman of Gage Roads on 12 November 2007 and is a member of the Gage Roads Audit and Remuneration Committee.
- 3.10 Mr Bill Hoedemaker – Director of Operations and Brewmaster. Mr Hoedemaker holds a Bachelor of Commerce from the University of Western Australia. He has been a professional brewer for 10 years. He is responsible for brewing operations, capital infrastructure and oversees the brewing operations of the Company including recipe formulation, quality control, product consistency and cost control.
- 3.11 Mr John Hoedemaker – Chief Financial Officer (**“CFO”**) and Company Secretary. Mr Hoedemaker holds a Bachelor of Commerce from the University of Western Australia. He is responsible for the financial, accounting, governance and administration aspects of the business. Prior to his involvement with Gage Roads, John was the General Manager and CFO of a successful building products manufacturing business, Architectural and Structural Adhesives (WA), which he managed from a start-up operation through to a trade sale to multi-national conglomerate.
- 3.12 Mr Robert Gould – Mr Gould has held a number of roles in finance and the management and guidance of start up, early stage and fast growing companies. His experience includes international mergers and acquisition activity and management of a venture capital fund. Mr Gould was a seed capital investor in Gage Roads and is currently a director and shareholder of Javelin Partners Pty Ltd.
- 3.13 Woolworths has elected, under the Subscription Agreement, to appoint Mr Steven Greentree as its representative on the Board of Directors of Gage Roads. Mr Greentree is the General Manager of Woolworths’ liquor group having commenced his career as a management trainee of Woolworths in the ACT in 1981. Mr Greentree was appointed to his current role in the liquor group in December 2007 and has responsibility for all Woolworths’ retail liquor brands. Prior to his appointment, he was the General Manager of Woolworths’ Private Label and quality assurance for Australia and New Zealand, taking on that role from his previous position as General Manager of Marketing for Australian supermarkets. Mr Greentree has had extensive operations experience having held the positions of Operations Manager and Regional Manager for South Australia and the Northern Territory, and as an Area Manager and Store Manager.

### Key Executive – Gage Roads

- 3.14 Nick Hayler is the Chief Executive Officer (**“CEO”**) of Gage Roads and is not a director of the Company.
- 3.15 Mr Hayler holds a Bachelor of Business Administration and Marketing Major. Prior to joining Gage Roads he was employed by Coca Cola Amatil for 12 years working at both state and national level. He initially joined Gage Roads as National Marketing Manager and was responsible for driving the new marketing direction, strategic planning and the cultural development of the business. Mr Hayler was promoted to the position of CEO on 30 October 2007 and oversees the Sales and Marketing function of the business.



## 4 WOOLWORTHS LIMITED

### Background

- 4.1 Woolworths Limited engages in the retailing business. It primarily sells food and grocery, liquor, petrol, general merchandise, and consumer electronics through chain store operations. The company is also involved in hotel operations, including bar, dining, gaming, accommodation, and venue hire activities.
- 4.2 Woolworths operates supermarkets, retail liquor outlets, petrol outlets, discount department stores, and electronics powerhouse stores primarily in Australia and New Zealand.
- 4.3 Woolworths operates its stores under the brand names of Woolworths, Safeway, Caltex/Woolworths Petrol, Dick Smith Electronics, PowerHouse, Tandy, BWS, Dan Murphy, BIG W, Foodtown, and Countdown.
- 4.4 As of 4 January 2009, it operated approximately 3,117 stores comprising 2,253 supermarkets (which include Woolworths' freestanding liquor stores, ALH Group retail stores, Caltex/Woolworths Petrol stores and Woolworths' petrol stores in Australia and New Zealand), 588 merchandise stores, and 276 hotels, including 8 clubs. Woolworths has a joint venture with Tata to provide wholesale services to 26 retail stores operating under the Croma brand in India.
- 4.5 Woolworths operates approximately 1,135 retail liquor stores throughout Australia.
- 4.6 Woolworths' half-year results reported sales of \$26 billion over the 6-month period, \$2.8 billion of which was derived from its liquor outlets.

## 5 INDUSTRY OVERVIEW

### Overview

- 5.1 IBISWorld reports that beer accounts for an estimated 94% of the beer and malt manufacturing industry revenue. Its share of industry revenue has been growing gradually due to beer price increases and reduced local production of malt. Bottled beer is dominant with around 46% of this market, while draft accounts for approximately 29.4%. Cans are also a major product segment, accounting for an estimated 18.6% of industry revenue, although have been declining as a share over the current period. Another growing sub-segment of the industry is low-carbohydrate beers. It has been estimated that this segment now accounts for 2.4% of industry revenues and is growing at 127% per annum.
- 5.2 IBISWorld reports that the industry has been faced with declining levels of consumption as well as increased competition from other alcoholic beverages such as wine and spirits. Overall, industry revenue is estimated to have grown at an annualized rate of 0.2% over the five years to 2008-09. Growth in industry value added has been slightly higher at 0.9% over the five years, due to producers' ability to produce and market beers at a slightly higher price point.
- 5.3 IBISWorld estimates that in 2008-09, the industry is expected to be affected to some extent by falling consumer confidence and rising unemployment. This is expected to see consumers switch away from premium beers back to more traditional offerings, in reversal of the previous trend towards premium products.
- 5.4 According to IBISWorld, there is a rise of craft breweries which has come about as a result of increased consumer interest in the brewing process and consumers' desire for variety. The range of products available has been constantly changing, giving smaller industry participants an opportunity to gain market share. Craft breweries, which are relatively high cost operations

compared to larger brewers, have benefited from growth in discretionary income in recent years. These indicators have increased at an annualised rate of 2.1% and 3.7% respectively.

- 5.5 IBISWorld forecasts that over the five year outlook period to 2013-14, beer consumption by volume will rise, while per capita consumption will fall slightly. Although the industry is expected to benefit in 2008-09 from the economic downturn, with consumers trading back from higher priced spirits to beer, following years will see external competition intensify. Over the five years to 2013-14, revenue is forecast to increase at an annual average rate of 1.7%.
- 5.6 According to IBISWorld, a number of craft breweries and brewing associations are lobbying the government to exclude smaller producers from excise taxes. Presently, microbreweries producing less than 30,000 litres per annum receive an excise concession in the form of a refund of a portion of excise paid, up to \$10,000 or 60% of the excise payable.

(Source: IBISWorld Industry Report, Beer and Malt Manufacturing in Australia, 4 March 2009)

## 6 FINANCIAL INFORMATION

- 6.1 Set out below is a summary of the audited income statements and balance sheets of Gage Roads for the years ended 30 June 2007 ("FY07") and 30 June 2008 ("FY08") as extracted from Gage Roads 2008 Annual Report. Also included is a summary of the unaudited balance sheet of Gage Roads for the nine months ended 31 March 2009.

Income Statement	Audited 30 June 2007 \$	Audited 30 June 2008 \$	Unaudited 9 months to 31 March 2009 \$
<b>Revenue from continuing operations</b>			
Sale of goods	1,360,609	1,475,874	1,028,468
Other income	142,733	65,644	318,128
Loss on sale of assets	-	-	(3,177)
<b>Total Revenue</b>	<b>1,503,342</b>	<b>1,541,518</b>	<b>1,343,419</b>
<b>Expenses</b>			
Raw materials, consumables and delivery	(619,639)	(712,970)	(465,619)
Operating expenses	(426,494)	(464,247)	(248,203)
Employee expenses	(1,919,959 )	(2,124,770)	(1,144,788)
Depreciation and amortisation expense	(118,578)	(142,006)	(100,657)
Sales and marketing	(921,741)	(1,371,644)	(355,086)
Administration costs	(407,304)	(510,245)	(270,012)
Occupancy costs	(107,783)	(113,102)	(108,344)
Finance costs	(53,168)	(43,128)	(28,794)
<b>Total Expenses</b>	<b>(4,574,666)</b>	<b>(5,482,112)</b>	<b>(2,721,503)</b>
Income tax benefit	-	311,725	-
<b>Net loss</b>	<b>(3,071,324)</b>	<b>(3,628,869)</b>	<b>(1,378,084)</b>
<b>Source:</b> Audited and unaudited financial statements of Gage Roads			

- 6.2 Sale of goods for FY07, FY08 and 9 months to 31 March 2009 has been adjusted to reflect revenue net of excise tax. Accordingly, expenses relating to raw materials, consumables and delivery have been reduced by the same amount.
- 6.3 The decline in sales revenue reflects the challenges the Company has faced in its national distribution. As announced in May 2009, the Company has now moved to a direct distribution model.
- 6.4 Operating, sales and marketing, and employee expenses significantly decreased over the 9-month period ended 31 March 2009 as a result of cost reductions introduced by the new Board, which included, reduction of casual staff, effecting some redundancies and general cost reduction strategies.
- 6.5 Reduction in sales and marketing expenditure between FY08 and the annualised 9-month period represents a corresponding reduction in sales revenue.

Balance Sheet	Audited 30 June 2007 \$	Audited 30 June 2008 \$	Unaudited 31 March 2009 \$
<b>Current Assets</b>			
Cash & cash equivalents	2,475,775	698,537	872,539
Trade and other receivables	325,785	490,329	453,360
Inventories	274,584	581,565	634,554
<b>Total Current Assets</b>	<b>3,076,144</b>	<b>1,770,431</b>	<b>1,960,453</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	2,319,057	2,507,781	2,491,723
Intangible assets	3,769	3,769	3,769
Other	2,552	-	-
<b>Total Non-Current Assets</b>	<b>2,325,378</b>	<b>2,511,550</b>	<b>2,495,492</b>
<b>Total Assets</b>	<b>5,401,522</b>	<b>4,281,981</b>	<b>4,455,945</b>
<b>Current Liabilities</b>			
Trade & other payables	442,751	593,951	404,234
Borrowings	145,188	182,390	239,616
<b>Total Current Liabilities</b>	<b>587,939</b>	<b>776,341</b>	<b>643,850</b>
<b>Non-Current Liabilities</b>			
Borrowings	444,101	279,113	348,682
<b>Total Non-Current Liabilities</b>	<b>444,101</b>	<b>279,113</b>	<b>348,682</b>
<b>Total Liabilities</b>	<b>1,032,040</b>	<b>1,055,454</b>	<b>992,532</b>
<b>Net Assets</b>	<b>4,369,482</b>	<b>3,226,527</b>	<b>3,463,413</b>
<b>Equity</b>			
Contributed equity	10,654,202	13,005,942	14,573,251
Share option reserves	150,934	285,077	332,738
Accumulated losses	(6,435,624)	(10,064,492)	(11,442,576)
<b>Total Equity</b>	<b>4,369,512</b>	<b>3,226,527</b>	<b>3,463,413</b>
<b>Source:</b> Audited and unaudited financial statements of Gage Roads			



- 6.6 Issued capital increased by approximately \$1.5 million between 30 June 2008 and 31 March 2009 primarily as a result of Gage Roads having successfully completed a placement of 3 million shares at an issue price of \$0.006 per share to raise \$180,000 and a partially underwritten 2 for 1 rights issue which saw the issue of 147.2 million shares at an issue price of 1.0 cent per share to raise approximately \$1.5 million.
- 6.7 Accumulated losses increased to \$11.4 million as at 31 March 2009 from \$10.0 million as at 30 June 2008, reflecting the net loss of approximately \$1.4 million in the 9-month period to 31 March 2009.

## 7 CAPITAL STRUCTURE

- 7.1 Based on the Company's shareholders' register as at 20 May 2009, Gage Roads had on issue 226,232,669 fully paid ordinary shares, with the major shareholders set out in the table below.

Shareholder	Number of Shares	% of Issued Capital
Top Nominees Pty Limited	47,574,890	21.03%
Derong Qiu	25,940,706	11.47%
Shimin Song	25,940,706	11.47%
Surplus Pty Limited	18,280,986	8.08%
Pieter Hoedemaker	10,528,503	4.65%
Jamie Philip Boyton	5,426,048	2.40%
Annapurna Pty Limited	4,851,000	2.14%
Nordana Pty Limited	4,394,736	1.94%
Karla Maree Hayler	3,532,157	1.56%
Other minority holders	79,762,937	35.26%
<b>Total</b>	<b>226,232,669</b>	<b>100.00%</b>
<b>Source:</b> Gage Roads share register as at 20 May 2009		

- 7.2 As at 20 May 2009, Gage Roads had 3,000,000 unlisted options on issue:

Option Holder	Number of Options	%
Nick Hayler	2,500,000	83.34%
Aaron Heary	250,000	8.33%
Donald Pleasance	250,000	8.33%
<b>Total</b>	<b>3,000,000</b>	<b>100.00%</b>
<b>Source:</b> Gage Roads share register as at 20 May 2009		

The terms of the unlisted options issued are as follows:

- 750,000 unlisted options exercisable at \$0.40 expiring 12 July 2012;
- 750,000 unlisted options exercisable at \$0.20 expiring 19 December 2012;
- 750,000 unlisted options exercisable at \$0.30 expiring 19 December 2012; and
- 750,000 unlisted options exercisable at \$0.40 expiring 19 December 2012.

7.3 The table below shows the maximum extent of the increase in Woolworths voting power in the Company that would result from the Transaction:

	Existing Capital Structure		Post Transaction		
	Number of Shares	Shareholding %	Number of Shares	Shareholding %	Shareholding Fully Diluted
Existing shareholders	226,232,669	100%	226,232,669	74.75%	75.00%
Woolworths	-	-	76,410,890	25.25%	25.00%
<b>Total Undiluted Shares</b>	<b>226,232,669</b>	<b>100%</b>	<b>302,643,559</b>	<b>100%</b>	<b>100%</b>
Options held by parties other than Woolworths	3,000,000	-	3,000,000	-	-
<b>Total Diluted Shares</b>	<b>229,232,669</b>	<b>-</b>	<b>308,643,559</b>	<b>-</b>	<b>-</b>
<b>Source:</b> PKFCA analysis					

7.4 We note that (based on the assumptions detailed in the table in paragraph 7.3 above), Woolworths' total shareholding in Gage Roads post-transaction may increase to a maximum of 25.25% of the Company's issued capital on an undiluted basis. This results in a dilution of 25.25% to non-associated shareholders from an initial shareholding of 100% to a post-Transaction of 74.75%. As Woolworths does not hold any of the existing unlisted options, this represents the maximum dilution effect on the non-associated shareholders. On a fully diluted basis, Woolworths' resultant shareholding is expected to increase from nil% to 25% assuming full Placement.

## 8 VALUATION OF GAGE ROADS

### Valuation Methodology

- 8.1 In conducting our assessment of the fair market value of Gage Roads, we considered the generally accepted valuation methods as set out in Appendix 1.
- 8.2 In view of the current financial position and operations of the Company pre-Transaction, and the extent of financial information that we have been able to obtain to conduct our post-Transaction analysis (as explained in the paragraphs following), we have analysed both the pre-Transaction and post-Transaction valuations using the NRV approach.
- 8.3 We also considered the market trading ("**Market**") approach, which estimates fair market value by relying on prices from recent sales of the comparable assets, or shares in a company as a guide to current value. This approach includes the use of current share prices for companies that are listed on the ASX.

- 8.4 The discounted cash flow (“**DCF**”) method discounts future cash flows of a business asset at a discount rate that reflects the riskiness of those cash flows to present value.
- 8.5 From our enquiries with the Directors of the Company, projected cash flows are not available because the Company has a history of trading losses and has no sufficiently reliable basis to project forward cash flows. In view of the uncertainty of Gage Roads’ current operations, any forecast cash flows prepared for the purpose of a pre-Transaction valuation of the Company are likely to be hypothetical than best estimate and, consequently, the Directors have not provided us with such forecast cash flows. Therefore, we have considered that the DCF method is not an appropriate method to value the pre-Transaction equity of Gage Roads.
- 8.6 We were also unable to apply the DCF method for the post-Transaction valuation of the Company as the Directors of Gage Roads believe that there is still significant uncertainty in any prospective information due to factors such as:
- the Company has recently announced its decision to move to a direct distribution model and has terminated the agreement it had with an agency distributor. However, as yet, the Company has not engaged an internal distribution team, and the scope and size of the proposed internal distribution team will ultimately be dependent on the quantity of Gage Roads’ products that potentially may be distributed by Woolworths;
  - the Supply Agreement contains no provisions concerning sale by Woolworths of the Company’s existing craft beer and cider products, and accordingly, Woolworths is under no obligation to retail or sell such products; and
  - the Company has no reliable information reflecting the potential improvements in production overhead costs expected from improved economies of scale resulting from the expansion of activities from 50,000 to 400,000 cases of craft beer per annum.
- 8.7 As a result of the above factors, the Directors were unable to provide forecast cash flows incorporating the Supply Agreement. Therefore, we have not applied the DCF method in valuing the post-Transaction equity of Gage Roads.
- 8.8 The capitalisation of future maintainable earnings approach was also deemed inappropriate, given that Gage Roads has a history of losses and was unable to provide forecast earnings information.

#### **Application of the NRV approach**

- 8.9 Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business. Whilst commonly used for businesses that are close to liquidation, it can also be used to value the net assets of a company on a going concern basis without taking into account any realisation costs.
- 8.10 We have applied the NRV approach to valuing the equity of Gage Roads both on a pre-Transaction basis as well as a post-Transaction basis for the above stated reasons.

#### **Pre-Transaction Value**

- 8.11 We outline the notional assets and liabilities of Gage Roads as at 31 March 2009, adjusted for material changes subsequent to that date, in the table below:

Balance Sheet	Unaudited 31 March 2009 \$	Subsequent Adjustments 31 March 2009 \$	Adjustment Notes	Adjusted Pre- Transaction \$
<b>Current Assets</b>				
Cash & cash equivalents	872,539	(180,635)	1	691,904
Trade and other receivables	453,360			453,360
Inventories	634,554			634,554
<b>Total Current Assets</b>	<b>1,960,453</b>			<b>1,779,818</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	2,491,723		2	2,491,723
Intangible assets	3,769			3,769
<b>Total Non-Current Assets</b>	<b>2,495,492</b>			<b>2,495,492</b>
<b>Total Assets</b>	<b>4,455,945</b>			<b>4,275,310</b>
<b>Current Liabilities</b>				
Trade & other payables	404,234			404,234
Borrowings	239,616			239,616
<b>Total Current Liabilities</b>	<b>643,850</b>			<b>643,850</b>
<b>Non-Current Liabilities</b>				
Borrowings	348,682	(180,635)	1	168,047
<b>Total Non-Current Liabilities</b>	<b>348,682</b>			<b>168,047</b>
<b>Total Liabilities</b>	<b>992,532</b>			<b>811,897</b>
<b>Net Assets</b>	<b>3,463,413</b>			<b>3,463,413</b>
<b>Equity</b>				
Contributed equity	14,573,251			14,573,251
Share option reserves	332,738			332,738
Accumulated losses	(11,442,576)			(11,442,576)
<b>Total Equity</b>	<b>3,463,413</b>			<b>3,463,413</b>
<b>Source:</b> Unaudited financial statements of Gage Roads				

**Notes:**

1. Cash balance as at 31 March 2009 adjusted for convertible note balance of \$180,635 payable to VOK Beverages Pty Ltd ("VOK") as part of terminating the convertible note and distribution agreements, with a corresponding reduction in borrowings. We further note that in this regard, VOK will not be obligated to defer its share of gross profit or make payment of any deferred gross profit arising from the sale of Gage Roads' products on and from 1 April 2009.
2. As per the valuation report prepared by an independent valuer on 25 September 2008, the market value of plant and equipment amounts to \$2,355,000. However, for purpose of our valuation, we have adopted the 31 March 2009 balance sheet value of plant and equipment amounting to \$2,328,499 as the difference of \$26,501 is not significant. The total property, plant and equipment value of \$2,491,723 also includes amounts for motor vehicles, office equipment and leasehold improvements.

8.12 The equity value of Gage Roads based on the NRV approach is \$3.46 million. Based on the total number of Gage Roads shares of 226,232,669 outstanding as at the date of this Report, this equates to a per share value of **\$0.015** per share.

## Post-Transaction Value

8.13 We analysed two possible scenarios of the Placement where:

- the first scenario assumes the full placement, including the contingent component of the Placement (as detailed in paragraph 2.6 of this Report), that is, 76,410,890 shares at 2.5 cents per share raising \$1,910,272 (“**Scenario 1**”); and
- the second scenario assumes that only the initial component (as detailed in paragraph 2.6 of this Report) is payable, that is 76,410,890 shares at 1.62 cents per share, raising \$1,237,856 and the contingent component not payable (“**Scenario 2**”).

### Scenario 1 – Full Placement

Balance Sheet	Adjusted Pre-Transaction as at 31 Mar 09 \$	Adjustments \$	Adjustment Notes	Notional Post- Transaction \$
<b>Current Assets</b>				
Cash & cash equivalents	691,904	1,208,272	1	1,900,176
Trade and other receivables	453,360			453,360
Inventories	634,554			634,554
<b>Total Current Assets</b>	<b>1,779,818</b>			<b>2,988,090</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	2,491,723	702,000	2	3,193,723
Intangible assets	3,769			3,769
Deferred tax asset	-	2,425,810	3	2,425,810
<b>Total Non-Current Assets</b>	<b>2,495,492</b>			<b>5,623,302</b>
<b>Total Assets</b>	<b>4,275,310</b>			<b>8,611,392</b>
<b>Current Liabilities</b>				
Trade & other payables	404,234			404,234
Borrowings	239,616			239,616
<b>Total Current Liabilities</b>	<b>643,850</b>			<b>643,850</b>
<b>Non-Current Liabilities</b>				
Borrowings	168,047			168,047
<b>Total Non-Current Liabilities</b>	<b>168,047</b>			<b>168,047</b>
<b>Total Liabilities</b>	<b>811,897</b>			<b>811,897</b>
<b>Net Assets</b>	<b>3,463,413</b>			<b>7,799,495</b>
<b>Equity</b>				
Contributed equity	14,573,251	1,910,272	4	16,483,523
Share option reserves	332,738			332,738
Accumulated losses	(11,442,576)	2,425,810	3	(9,016,766)
<b>Total Equity</b>	<b>3,463,413</b>			<b>7,799,495</b>
<b>Source:</b> Unaudited financial statements of Gage Roads				

#### Notes:

- Cash balance post-transaction adjusted for net funds received from total capital raised from both the initial and contingent components of the Placement after deducting capital expenditure on plant and equipment.

2. *Property plant and equipment post-transaction adjusted for funds to be utilised for the purchase, installation and commissioning of additional capital equipment to fulfil the requirements of the Supply Agreement with Woolworths.*
3. *The estimated value of the deferred tax asset is added on the assumption that the tax losses can be utilised by the Company. In this regard, PKFCA has not performed any due diligence work in confirming the amount of unused tax losses or whether these tax losses can be recouped by Gage Roads. This value has been estimated by the Company and is used for this post-Transaction analysis only.*
4. *Post-Transaction contributed equity adjusted for proceeds received from both the initial and contingent components of the Placement from the placement of 76,410,890 shares to Woolworths on the basis that the tax losses can be utilised.*

8.14 The additional deferred tax asset of \$2.43 million has been added to the post-Transaction value and not to the pre-Transaction value of Gage Roads. This is on the basis that the Company has a history of losses, and in the absence of the Supply Agreement, no information has come to our attention, at the time of preparing this Report, that it is probable that the Company is likely to be able to utilise any of these tax losses.

8.15 The adjusted equity value of Gage Roads based on the notional post-Transaction analysis under Scenario 1 where the tax losses can be utilised is \$7.80 million. Based on the total number of Gage Roads shares of 302,643,559 post-Transaction, this equates to a notional post-Transaction per share value of **\$0.026** per share.

8.16 We analyse Scenario 2 as follows:

#### Scenario 2 – Contingent Portion Not Received

Balance Sheet	Adjusted Pre-Transaction as at 31 Mar 09 \$	Adjustments \$	Adjustment Notes	Notional Post- Transaction \$
<b>Current Assets</b>				
Cash & cash equivalents	691,904	535,856	1	1,227,760
Trade and other receivables	453,360			453,360
Inventories	634,554			634,554
<b>Total Current Assets</b>	<b>1,779,818</b>			<b>2,315,674</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	2,491,723	702,000	2	3,193,723
Intangible assets	3,769			3,769
<b>Total Non-Current Assets</b>	<b>2,495,492</b>			<b>3,197,492</b>
<b>Total Assets</b>	<b>4,275,310</b>			<b>5,513,166</b>
<b>Current Liabilities</b>				
Trade & other payables	404,234			404,234
Borrowings	239,616			239,616
<b>Total Current Liabilities</b>	<b>643,850</b>			<b>643,850</b>
<b>Non-Current Liabilities</b>				
Borrowings	168,047			168,047
<b>Total Non-Current Liabilities</b>	<b>168,047</b>			<b>168,047</b>
<b>Total Liabilities</b>	<b>811,897</b>			<b>811,897</b>
<b>Net Assets</b>	<b>3,463,413</b>			<b>4,701,269</b>

Balance Sheet	Adjusted Pre-Transaction as at 31 Mar 09 \$	Adjustments \$	Adjustment Notes	Notional Post- Transaction \$
<b>Equity</b>				
Contributed equity	14,573,251	1,237,856	3	15,811,107
Share option reserves	332,738			332,738
Accumulated losses	(11,442,576)			(11,442,576)
<b>Total Equity</b>	<b>3,463,413</b>			<b>4,701,269</b>
<b>Source:</b> Unaudited financial statements of Gage Roads				

*Notes:*

1. *Cash balance post-Transaction adjusted for net funds received from total capital raised from only the initial component of the Placement after deducting capital expenditure on plant and equipment.*
  2. *Property plant and equipment post-Transaction adjusted for funds to be utilised for the purchase, installation and commissioning of additional capital equipment to fulfil the requirements of the Supply Agreement with Woolworths.*
  3. *Post-Transaction contributed equity adjusted for proceeds received from only the initial component of the Placement from the placement of 76,410,890 shares to Woolworths. This is on the basis that the tax losses cannot be utilised and therefore the consideration payable under the contingent component of the Placement is nil.*
- 8.17 The equity value of Gage Roads based on the notional post-Transaction analysis under Scenario 2 where the tax losses cannot be utilised is \$4.7 million. Based on the total number of Gage Roads shares of 302,643,559 post-Transaction, this equates to a notional post-Transaction per share value of **\$0.016** per share.

### Deferred Tax Asset

- 8.18 As outlined in Section 2 of this Report, the consideration payable on both the Placement and the option exercise includes a contingent component. The contingent component priced at 0.88 cents per share implies the amount of a possible deferred tax asset arising from tax losses carried forward by Gage Roads of approximately \$2.43 million.
- 8.19 We understand that at this stage, Gage Roads has not yet obtained taxation advice in relation to these tax losses, but have been provided with an estimated deferred tax asset calculation of approximately \$2.43 million.
- 8.20 PKFCA has not performed any due diligence work in confirming the amount of unused tax losses, neither has PKFCA performed any due diligence work in determining whether these tax losses can be recouped by Gage Roads and accordingly, we are unable to provide an opinion on the value of the deferred tax asset.
- 8.21 The Company's ability to utilise its tax losses will depend on whether Gage Roads is able to meet the 'Same Business Test' ("**SBT**") or the 'Continuity of Ownership Test' ("**COT**"). Broadly, satisfaction of the COT requires at least 50% of shareholders to have held the same shares from the start of the loss year to the end of the year of income in which the loss is to be utilised. The SBT is satisfied when the entity carries out the same business in the utilisation year as that carried on immediately before the change in ownership.
- 8.22 In the event that Gage Roads is unable to utilise all of these tax losses, the contingent component payable will be nil and the total consideration payable will be 1.62 cents per share.



### **Conclusion on NRV**

- 8.23 In consideration of all of the above, we have arrived at the pre-Transaction value of \$0.015 per share and a post-Transaction value of \$0.026 per share under Scenario 1 where we have assumed that the Company's tax losses can be utilised.
- 8.24 In consideration of all of the above, we have arrived at the pre-Transaction value of \$0.015 per share and a post-Transaction value of \$0.016 per share under Scenario 2 where we have assumed that the Company's tax losses cannot be utilised.

### **Application of the Market approach**

- 8.25 In order to assess the reliability of using the traded market price of Gage Roads shares as a basis for valuing the Company, we have had regard to:
- the liquidity of Gage Road shares over the trading period pre and post the announcement of the Transaction;
  - the 'spread' of ordinary shareholders and the total number of ordinary shares that they hold in the Company, taking into account any trading or other restrictions applicable to the quoted ordinary shares;
  - the level of trading activity of the quoted ordinary shares in the Company (i.e. the volume of trades of the quoted ordinary shares in the market as a percentage of the total quoted ordinary shares, and the frequency of the trades);
  - the number and frequency of 'unusual' and/or 'abnormal' trading that takes place in the Company's quoted ordinary shares;
  - the presence of any factors that may indicate that trading in the shares is the result of significant speculative trading; and
  - the level of knowledge that the 'willing' buyers and sellers have in respect of the Company and the market in which it operates.

### **Pre-announcement share price analysis**

- 8.26 We analysed the share price and volume history for the period pre-announcement of the Transaction from 2 April 2008 to 14 May 2009 as follows:



GRB Price History – 2 April 2008 to 14 May 2009



Source: IRESS

- 8.27 We note the following major movements in the Company's share price and volume:
- the Company's share price has fallen significantly during the 12 months period from 2 April 2008 to 2 April 2009, from \$0.04 to \$0.02 but has increased 150% from \$0.02 to \$0.05 on 3 April 2009 and the share price was sustained on or around this level until 14 May 2009, which was the date just prior to the announcement of the Transaction; and
  - an increase in the volume of shares traded on 10 October 2008 was noted. On this date, the market was notified of a renounceable entitlement issue of shares on the basis of two shares for every one held.
- 8.28 We note a significant increase of 150% in the Company's share price from \$0.02 to \$0.05 on 3 April 2009 although no market sensitive information was released to the market on this date. The Company also could not provide an explanation for this increase in share price. Therefore, we have conducted our share price analysis based on the 12-month period from 2 April 2008 to 2 April 2009 and have omitted the anomaly in share price for the period from 3 April 2009 to 14 May 2009.
- 8.29 We note the following in regards to Gage Road's market liquidity and trading activity:
- annual turnover of the Company's shares on a one-year rolling period up to 2 April 2009 was over 10.5 million shares, which is equivalent to approximately 4.67% of the total number of shares on issue at that time;
  - the average daily volume of trades ranged from 116,546 per day in the one month period prior to 2 April 2009 up to 96,774 per day in the six month period prior to 2 April 2009.

Details of the average daily trading volume of the Company's shares are set out in paragraph 8.31;

- We observe 85 active trading days during the selected 12-month period (from 2 April 2008 to 2 April 2009) out of a total of 262 trading days, indicating that the market has not been very active for the Company's shares during that period; and
- the top 10 shareholders of the Company make up approximately 68% of the total number of shares outstanding.

8.30 We also reviewed the following relating to the trading activity of Gage Roads shares on the ASX:

- the daily high, low and closing share price;
- the daily volume of share trading; and
- the volume weighted average price ("**VWAP**").

8.31 The following table summarises the VWAP analysis of Gage Roads share prices between 2 April 2008 and 2 April 2009, which reflects the Market approach in deriving the pre-Transaction value of Gage Roads:

	High	Low	VWAP	Average daily volume
As at 2 April 2009	0.0210	0.0210	0.0210	258,877
1 month to 2 April 2009	0.0210	0.0120	0.0185	116,546
3 months to 2 April 2009	0.0210	0.0120	0.0175	103,076
6 months to 2 April 2009	0.0400	0.0110	0.0219	96,774
12 months to 2 April 2009	0.0600	0.0110	0.0303	124,211
<b>Source:</b> IRESS and PKFCA analysis				

8.32 The VWAP of the Company's shares incorporates the averaging of share prices based on the daily volume weighted value of trades during the selected period.

8.33 We note the following with respect to the share price of Gage Roads between 2 April 2008 and 2 April 2009:

- Gage Roads' closing share price on 30 March 2009 (no trading activity between 31 March 2009 and 2 April 2009) was \$0.0210;
- Gage Roads' shares traded between \$0.0110 and \$0.0600 during the 12 month period; and
- the VWAP decreased over the 12-month period and ranged from \$0.0175 to \$0.0303.

8.34 Based on the above analysis, we obtain a pre-Transaction value of the Company using the Market approach to be in the range of \$0.018 per share and \$0.030 per share, with a mid-point value estimate of \$0.024 per share.

#### Post-announcement share price analysis

8.35 Upon the announcement of the Transaction on 15 May 2009, we note a 20% increase in the share price of Gage Roads from \$0.05 to \$0.06. Based on the closing price of \$0.066 on that day, Gage Roads had a market capitalisation of approximately \$14.93 million.

- 8.36 The following table summarises the VWAP analysis of Gage Roads' share prices between 15 May 2009 and 19 May 2009, which reflects the Market approach in deriving the post-Transaction value of Gage Roads:

	High	Low	VWAP	Average daily volume
As at 19 May 2009	0.0560	0.0470	0.0523	2,340,373
15 May 2009 to 19 May 2009	0.0770	0.0420	0.0574	4,294,059
<b>Source:</b> IRESS and PKFCA analysis				

- 8.37 We note the following with respect to the share price of Gage Roads between 15 May 2009 and 19 May 2009:
- Gage Roads' closing share price on 19 May 2009 was \$0.0480;
  - Gage Roads' shares traded between \$0.0420 and \$0.0770 during the period post Transaction announcement from 15 May 2009 to 19 May 2009; and
  - the VWAP for the post-Transaction announcement period was \$0.0574.
- 8.38 Based on the above analysis, we obtain a post-Transaction value of the Company using the Market approach to be in the range of \$0.052 per share and \$0.057 per share, with a mid-point value estimate of \$0.055 per share.

#### Comparison of values under the NRV approach and the Market approach

- 8.39 The equity value of Gage Roads obtained under the NRV approach was \$0.015 per share on a pre-Transaction basis, as analysed in paragraphs 8.11 to 8.12 above.
- 8.40 The equity value of Gage Roads obtained under the NRV approach ranged between \$0.016 per share and \$0.026 per share under the two scenarios analysed in paragraphs 8.13 to 8.17 above, on a post-Transaction basis.
- 8.41 Based on the VWAP analysis conducted above, the Market approach provides a mid-point pre-Transaction equity value of \$0.024 per share. As traded share prices reflect a minority portfolio interest, a control premium of approximately 30% may be applied to obtain an equivalent controlling interest value of \$0.031 per share for the purpose of our comparison with the values obtained under the NRV approach.
- 8.42 Based on the VWAP analysis conducted above, the Market approach provides a post-Transaction equity value of \$0.055 per share. As traded share prices reflect a minority portfolio interest, a control premium of approximately 30% may be applied to obtain an equivalent controlling interest value of \$0.072 per share for the purpose of our comparison with the values obtained under the NRV approach.
- 8.43 We note that the Market approach provides a higher value than the NRV approach and the difference in the values derived from each approach may be attributable to the following:
- the NRV approach generally provides the lowest value for the business;
  - the NRV approach does not necessarily take into account the potential future cash flows of the business;
  - the Market approach encapsulates some value in a listed company which is not taken into consideration in the NRV approach; and

- the NRV approach is affected by accounting policies that may not capture the true value of Gage Roads' assets and liabilities.

The difference in values obtained under the Market approach and the NRV approach is typically attributed to goodwill.

#### Control Premium

- 8.44 RG 111 states that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. Accordingly, in valuing securities in the company, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or 'portfolio' parcel of shares.
- 8.45 Whilst valuations obtained using the Market approach relate to minority interest shareholding value, valuations obtained using the NRV approach relate to a controlling interest shareholder value. As we have determined the fair market value of Gage Roads using the NRV approach, we have not adjusted the pre-Transaction value of Gage Roads for a control premium.
- 8.46 We have further evaluated the Company on a post-Transaction basis, taking into account any control that the in-coming shareholder may hold, before concluding if the offer is 'fair' to non-associated shareholders.
- 8.47 If some control is determined, a minority discount needs to be applied to the value of Gage Roads' securities post-Transaction, on the basis that existing non-associated shareholders are likely to hold minority interests in the post-Transaction entity.
- 8.48 Assuming that Woolworths acquires the maximum number of shares in Gage Roads, Woolworths is expected to become the major shareholder of the Company with a maximum shareholding interest of 25.25%, a shareholding that is larger than the next largest shareholder (Top Nominees Pty Ltd at approximately 15.72% post-Transaction). Therefore, we expect Woolworths to have influence over Gage Roads, consistent with that shareholding.
- 8.49 In addition, the Transaction entitles Woolworths to appoint a nominee to the Board of Directors of Gage Roads.
- 8.50 Accordingly, we have applied a minority discount of 10% to the post-Transaction value of Gage Roads under both Scenarios 1 and 2 to reflect some extent of influence that Woolworths could have over the Company, resulting in the adjusted post-Transaction values under Scenario 1 and Scenario 2 as follows:

	Scenario 1		Scenario 2	
	Pre-Transaction	Post-Transaction	Pre-Transaction	Post-Transaction
NRV per share	\$0.015	\$0.026	\$0.015	\$0.016
Minority discount applied	-	10%	-	10%
NRV per share after discount	\$0.015	\$0.023	\$0.015	\$0.014
<b>Source:</b> PKFCA analysis				

- 8.51 The above analysis shows that, with a minority discount being incorporated, the NRV per share is expected to increase post-Transaction under Scenario 1 but is expected to decrease post-Transaction under Scenario 2.

## 9 CONSIDERATIONS IN ASSESSING THE APPROVALS

### Notional Post-Transaction Analysis

- 9.1 The substance of the Transaction suggests that although Gage Roads is receiving cash under the Placement, the non-associated shareholders of the Company are not exchanging their shares for cash and will continue to hold shares in the post-Transaction entity of Gage Roads.
- 9.2 Therefore, for the purpose of this fairness assessment, we are required to compare the value of the securities being offered (allowing for a minority discount) – in this case the post-Transaction value of Gage Roads – and the value of the target entity's securities (pre-Transaction), assuming 100% of the securities are available for sale.
- 9.3 The Transaction is 'fair' if the notional NRV per share of Gage Roads post-Transaction is expected to be higher than the fair market value per share of Gage Roads' shares pre-Transaction.

### Comparison of Consideration

- 9.4 The value of consideration received by Gage Roads under the Placement is the subscription price under the Subscription Agreement. The subscription price is \$0.025 per share payable in two components. The first component of \$0.0162 per share is payable upon the issue of the shares to raise \$1,237,856 and the second component, which is subject to the satisfaction of the tax loss condition (which relates to the confirmation that the Company's tax losses are more likely than not to be utilisable) being satisfied is \$0.0088 per share payable upon the satisfaction of those requirements to raise an additional \$672,415.
- 9.5 The subscription price is compared with the fair market value per share of Gage Roads' shares, determined by the NRV approach, to evaluate the fairness of the Transaction. The Transaction is 'fair' if the value of consideration received by Gage Roads is higher than the fair market value per share of Gage Roads' shares.

## 10 ASSESSMENT OF FAIRNESS

- 10.1 RG 111 states, as a criteria to analysing the fairness of a Transaction, that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.
- 10.2 The assessment of fairness should also consider the value of the securities being offered (allowing for a minority discount) – being the post-Transaction value of the target entity's (Gage Roads) shares – and the value of the target entity's securities (pre-Transaction), assuming 100% of the securities are available for sale.
- 10.3 Based on our notional post-transaction analysis we observe the following:
  - under the NRV approach assuming full placement (Scenario 1), the value per share of Gage Roads of \$0.023 post-Transaction (after allowing for minority discount of 10%), is higher than the assessed pre-Transaction fair value of \$0.015 per share;
  - however, in the event that the contingent portion of the consideration is not received (Scenario 2), the value per share of Gage Roads of \$0.014 post-Transaction (after allowing for minority discount of 10%), is lower than the assessed pre-Transaction fair value of \$0.015; and
  - under the Market approach, the post-Transaction value of \$0.055 per share is higher than the pre-Transaction value of \$0.024 per share.

- 10.4 Based on our comparison of the subscription price of the Placement and option granted to Woolworths with the pre-Transaction value of the shares of Gage Roads, the subscription price of \$0.025 per share is higher than the assessed pre-Transaction fair value of \$0.015 per share under the notional NRV approach and also higher than the assessed pre-Transaction value of \$0.024 per share under the Market approach.
- 10.5 Based on the above assessments assuming full amount of funds are raised from the Placement, we conclude that the Transaction is fair.
- 10.6 However, in the event that the contingent portion of the consideration is not received, we conclude that the Transaction is not fair.

## 11 ASSESSMENT OF REASONABLENESS

- 11.1 RG 111 states, as a criteria to analysing the reasonableness of the Agreement whereby as a consequence of a company issuing securities to an allottee, that allottee acquires over 20% of the company, that an offer is 'reasonable' if it is fair.
- 11.2 In accordance with RG 111, the Transaction is reasonable because the Transaction is fair. The reasonableness of the Transaction is further supported by other considerations and additional reasons for the shareholders to vote in favour of the Transaction.

### Other considerations

- 11.3 The Transaction would result in a maximum dilution of 25.25% to non-associated shareholders from an initial shareholding of 100% to a post-Transaction shareholding of 74.75%, if Woolworths acquires the maximum number of Gage Roads shares pursuant to the Transaction.
- 11.4 With the strategic relationship with Woolworths, it is possible that Gage Roads may be able to expand into and penetrate a wider market for its own products through the Woolworths network of approximately 1,135 retail liquor stores throughout Australia. Should this occur, it could also reduce the need for a more extensive sales force, in view of the Company's recent termination of its distributor agreement. However, Woolworths is not under any obligation to sell or stock Gage Roads' products.
- 11.5 Gage Roads has a cash balance of approximately \$0.87 million as at 30 April 2009, which is expected to be continually reduced through its annual cash burn due to the Company's losses. The Transaction will provide a required working capital injection to boost the Company's cash reserves. This becomes more significant given the current economic climate and state of financial markets where the ability to raise funds via debt or equity has become increasingly difficult for small capped companies.
- 11.6 As noted in paragraph 8.14 of the Report, Gage Roads has a history of losses, and in the absence of the Supply Agreement, no information has come to our attention, at the time of preparing the Report, that it is probable that the Company is likely to be able to utilise its tax losses. The Supply Agreement is expected to increase Gage Roads' brewing output by eightfold, from its current 50,000 cases per annum to an expected minimum of 400,000 cases per annum. As the Company's historical losses are primarily due to lower levels of production and lower sales volumes not sufficiently covering the Company's fixed costs, the expected significant increase in production and sales is likely to provide for an improved recovery against costs, thereby also providing the Company with the opportunity to potentially utilise its tax losses.
- 11.7 The Supply Agreement is expected to also grow Gage Roads' current production volume, thereby allowing the Company to realise greater economies of scale.
- 11.8 The Supply Agreement is conditional upon Woolworths acquiring shares in Gage Roads under the Subscription Agreement. Accordingly, shareholders' approval for the Placement will be vital



for the Supply Agreement to become effective, in the event that Woolworths does not exercise its option to acquire the shares in Gage Roads under the Subscription Agreement.

- 11.9 The complementary nature of the Subscription Agreement, Subscriber Rights Deed and Supply Agreement is considered by Gage Roads to potentially incentivise Woolworths to support and facilitate Gage Roads in its growth plans. This could take the form of increasing Woolworths' contract brewing requirements in the future, retailing Gage Roads' own branded products through its retail liquor stores, as well as possible further strategic alliances and funding. However, Woolworths is not under any obligation to do any of these things.
- 11.10 The Transaction will result in Woolworths being a cornerstone shareholder of Gage Roads. The presence of a high profile shareholder, such as Woolworths, is likely to increase the Company's profile among investors and the financial market's interest in the Company.
- 11.11 Gage Roads recently conducted a renounceable entitlements issue of up to 147,223,446 shares at an issue price of 1.0 cent each on the basis of two shares for every one share held, to raise approximately \$1,472,334. However, only 55% of the shares offered were taken up, resulting in the balance 45% being taken up by the underwriters. We further note that the rights issue price of 1.0 cent is significantly lower than the 2.5 cents subscription price under the Placement and also lower than the 1.6 cents value should the contingent component of the Placement not materialise.
- 11.12 The addition of a Woolworths' representative, Mr Steven Greentree to the Board of Gage Roads will also add liquor and retail expertise to the Company.
- 11.13 Following the Placement, Gage Roads is expected to be a company with increased market capitalisation which may result in investors having a greater interest in Gage Roads' shares. This may also increase the liquidity of the Company's shares.

## 12 CONCLUSION

- 12.1 **We have considered the terms of the Subscription Agreement in conjunction with the Subscriber Rights Deed and Supply Agreement, and conclude that the Transaction is fair and reasonable to the non-associated shareholders of Gage Roads assuming full amount of funds are raised from the Placement.**

## 13 SOURCES OF INFORMATION

- 13.1 In preparing this report we have had access to and have relied upon the following primary sources of information:
- Notice of meeting and Explanatory Statement for the General Meeting scheduled for on or around 26 June 2009;
  - Subscription Agreement between Gage Roads and Woolworths dated 14 May 2009;
  - Supply Agreement between Gage Roads and Woolworths dated 14 May 2009;
  - Draft Subscriber Rights Agreement between Gage Roads and Woolworths which is proposed to be entered into upon the issue of shares to Woolworths under the Subscription Agreement;
  - Distribution Agreement between Gage Roads and VOK Beverages Pty Ltd;
  - Convertible Note Deed between Gage Roads and VOK Beverages Pty Ltd;
  - Deed of Settlement between Gage Roads and VOK Beverages Pty Ltd;
  - Gage Roads' 2008 Financial Report containing audited financial accounts for Gage Roads for the years ended 30 June 2007 and 30 June 2008;

- Unaudited management accounts of Gage Roads for the 9-month period ended 31 March 2009;
- Fixed asset register of Gage Roads as at 31 March 2009;
- Plant and equipment valuation prepared by an independent valuer dated 26 September 2008;
- Shareholder and option registers of Gage Roads as at 20 May 2009;
- Correspondences including electronic mail, telephone conversations and meetings with key personnel from Gage Roads; and
- Other sources of publicly available information such as IRESS, ASIC, ASX, Internet, Company Websites, newspaper publications etc.

## **14 DECLARATIONS**

### **Qualifications**

- 14.1 PKFCA is corporate advisory company owned by partners of PKF Chartered Accountants, Western Australian Partnership ("PKF"). PKFCA has extensive experience in the provision of corporate financial advice, particularly in respect of independent expert's reports and valuations.
- 14.2 The nature of this Report is such that it should be given by an entity that holds an Australian Financial Services Licence under the Financial Services Reform Act 2001. PKFCA holds the appropriate Australian Financial Service Licence. PKFCA's Financial Services Guide is included in Appendix 2.
- 14.3 The person specifically involved in preparing this Report, Mr Neil Smith, is a Partner of PKF and a Director of PKFCA and has the necessary experience and qualifications appropriate to the advice being offered.
- 14.4 Other PKFCA and PKF staff have been consulted in the preparation of this Report where appropriate.

### **Independence**

- 14.5 PKFCA is not aware of any matter or circumstance that would preclude it from preparing this Report on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC RG 112.
- 14.6 Neither PKFCA, PKF, nor the signatory of this Report, Mr Neil Smith, has had within the past two years any relationship with the Company, except to note that Mr Ian Olson, non-executive Chairman of Gage Roads was previously a partner at PKF until 31 December 2007.
- 14.7 We have held discussions with the management of Gage Roads regarding the factual accuracy of the information contained in this Report. We did not change the methodology used in our assessment as a result of these discussions and our independence has not been impinged in any way.

### **Disclaimer**

- 14.8 This Report has been prepared at the request of the Directors of Gage Roads specifically for the non-associated shareholders of Gage Roads. It is not intended that this Report be used for any other purpose other than to accompany the NOM be sent to Gage Roads shareholders.



- 14.9 In particular it is not intended that this Report should be used for any other purpose than as an expression of our opinion on whether the Transaction is fair and reasonable to the shareholders of the Company.
- 14.10 Accordingly, this Report and the information contained herein may not be relied upon by anyone other than the non-associated shareholders of Gage Roads without the written consent of PKFCA.
- 14.11 Neither PKFCA, nor PKF, nor any member or employee thereof undertakes responsibility to any person, other than the non-associated shareholders of Gage Roads, in respect of this Report, including any error or omissions howsoever caused.
- 14.12 In the preparation of this Report we have considered the information and explanations given to us. We emphasise that we have not carried out an independent confirmation of the information nor have we conducted anything in the nature of an audit or full scope due diligence review. We do not imply, nor should it be construed that our assessment has revealed all the matters which an audit or more detailed examination might disclose.
- 14.13 We have however evaluated information provided to us by Gage Roads, as well as other parties through inquiry, analysis and review and nothing has come to our attention to indicate the information provided was materially misstated or did not afford reasonable grounds upon which to base our opinion. We have no reason to believe that any information relied on by us is incorrect.
- 14.14 The statements and opinions contained in this Report are given in good faith and are based upon PKFCA's consideration and assessment of information provided by the Directors, executives and management of Gage Roads as well as other parties from whom the Directors have instructed to provide information, and is believed to be reliable and accurate. We have no reason to believe that any information has been withheld from us.

#### **Consents**

- 14.15 PKFCA hereby consents to this Report accompanying the NOM, in the form and content in which it is included, to be sent to Gage Roads shareholders. Apart from such use, neither the whole, nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement or letter without the prior written consent of PKFCA.

#### **Other**

- 14.16 PKFCA is entitled to receive a fee of approximately \$25,000 (excluding GST) for the preparation of this Report. PKFCA will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the making of this Report.

Yours faithfully



**Neil Smith**  
Director

## **APPENDIX 1: VALUATION APPROACHES CONSIDERED**

## **Valuation Approaches Considered**

Various commonly used business valuation methods have been considered as follows:

- Discounted Cash Flow (“**DCF**”);
- Capitalisation of Future Maintainable Earnings (“**CFME**”);
- Net Realisable Value of Assets (“**NRV**”); and
- Market Trading (“**Market**”).

### ***DCF Approach***

The DCF method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business asset for a number of years (usually five to ten years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value (“NPV”).

DCF is appropriate where:

- the businesses’ earnings are capable of being forecast for a reasonable period (preferably 5 to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite or defined life such as a mine or property development;
- the business is in a 'start up' or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to generate profits in the future.

### ***CFME Approach***

The CFME method involves the capitalisation of estimated future maintainable earnings by an appropriate multiple as a basis for determining the value of the business. Maintainable earnings are the assessed sustainable profits that can be derived by a business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence of the earnings multiples of comparable companies. The business value is then added to the realisable value of any surplus assets and net debt to arrive at the value of the Company.

This method is suitable for the valuation of profitable businesses with indefinite trading lives and recurring revenue streams and where earnings are relatively stable or a reliable trend in earnings is evident.

## **Net Realisable Value of Assets**

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets; and

- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- *orderly realisation*: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- *going concern*: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The net realisable value of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The net realisable value of assets is relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

### ***Market Trading Approach***

Market valuations rely on prices from recent sales of the comparable assets, or shares in a company as a guide to current value. This approach includes the use of current share prices for companies that are listed on the ASX. The application of the price that a company's shares trade on the ASX is an appropriate basis for valuation where:

- the shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares; and
- the market for the company's shares is active and liquid.

The Market approach generally provides a fair guide to value a company based on actual exchanges between willing and able buyers and willing and able sellers at arm's length.

## **APPENDIX 2: FINANCIAL SERVICES GUIDE**

## **Financial Services Guide**

Issue date: 26 May 2009

## **Financial Services Guide**

### **What is a Financial Services Guide?**

The purpose of the Financial Services Guide ("FSG") is to assist you in deciding whether to use any of the general financial product advice provided by PKF Corporate Advisory Services (WA) Pty Ltd ("PKFCA") (ABN 68 009 423 152). PKFCA is a holder of an Australian Financial Services Licence ("AFSL") No. 240566. The contents of this FSG include:

- who PKFCA is and how we can be contacted;
- what services PKFCA is authorised to provide under our AFSL;
- how PKFCA (and any other relevant parties) is remunerated in relation to any general financial product advice PKFCA may provide;
- details of any potential conflicts of interest; and
- details of PKFCA's internal and external dispute resolution systems and how you can access them.

### **Information About Us**

We have been engaged by the Directors of Gage Roads Resources Limited ("the Company") to give general financial product advice in the form of a report to be provided to you in connection with our Independent Expert's Report. A copy of this report is included in the Notice of Meeting prepared by the Company. You are not the party or parties who engaged PKFCA to prepare the report.

PKFCA is a corporate advisory company owned by partners of the Western Australian partnership of PKF Chartered Accountants and Business Advisers ("PKF"). The directors of PKFCA may also be partners in the Western Australian partnership of PKF.

The Western Australian partnership of PKF and its related entities provide services primarily in the areas of external audit, internal audit, tax, consulting and through PKFCA, corporate advisory services.

The financial product advice in our report is provided by PKFCA and not by the West Australian partnership of PKF or its related entities.

We do not have any formal associations or relationships with any other entities that are issuers or sellers of financial products, other than PKF Financial Services Pty Ltd. However, you should note that PKFCA and the West Australian partnership of PKF (and its related bodies corporate) may from time to time provide professional services to financial product issuers or sellers in the ordinary course of business.

### **What financial services are we licensed to provide?**

The AFSL that we hold authorises us to provide financial product advice in respect of securities only in the capacity of providing reports, for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues.

### **Information about the general financial product advice we provide**

The financial product advice provided in our report is known as “general advice” because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued or sold by another party, we recommend you obtain and read carefully the relevant offer document provided by the issuer or seller of the financial product. The purpose of the offer document is to help you make an informed decision about the acquisition of a financial product. The contents of the offer document will include details such as the risks, benefits and costs of acquiring the particular financial product.

### **How are we and our employees remunerated?**

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out of pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who engage us.

Neither PKFCA nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for the services rendered to the party or parties who engage us. You have a right to request further information with regards to remuneration received by PKFCA or its representatives.

All of our employees receive a salary. Our employees are eligible for annual salary increases and bonuses based on overall performance but do not receive any commissions or other benefits arising directly from services provided by you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits in connection with our advice.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### **Responsibility**

The liability of PKFCA is limited to the contents of this FSG and the report referred to in this FSG.

### **Distribution**

PKFCA authorises the distribution of this FSG.

### **What should you do if you have a complaint?**

If you have any concerns regarding this report, you may wish to advise us. Our internal complaints handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

**The Complaints Officer**  
**PO Box Z5066 St George's Terrace**  
**PERTH WA 6831**

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Ombudsman Service (“FOS”). FOS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FOS at:

**Financial Ombudsman Service Limited**  
**GPO Box 3**  
**MELBOURNE VIC 3001**  
**Telephone: 1300 780 808**  
**Fax: +61 (03) 9613 6399**

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia (“ICAA”). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants and can be contacted at:

**The Institute of Chartered Accountants**  
**GPO Box Z5385 St Georges Terrace**  
**PERTH WA 6831**  
**Telephone (08) 9420 0400**  
**Fax (08) 9321 5141**

Specific contact details for lodging a complaint with the ICAA can be obtained from their website at:

**<http://www.icaa.org.au/about/index.cfm>**

The Australian Securities and Investment Commission (“ASIC”) regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

**Info Line: 1300 300 630**  
**Email: [info@asic.gov.au](mailto:info@asic.gov.au)**  
**Internet: <http://www.asic.gov.au/asic/asic.nsf>**



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**ANNEXURE 2 - WOOLWORTHS' ASSOCIATES**

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A.C.N. 001 259 301 Pty Limited
Advantage Supermarkets Pty Ltd
Advantage Supermarkets WA Pty Ltd
ALH Group Pty Ltd
Albion Charles Hotel (BMG) Pty Ltd
ALH Group Property Holdings Pty Limited
Australian Leisure and Hospitality Group Limited
ALH Group (No. 1) Pty Ltd
Balaclava Hotel (BMG) Pty Ltd
Chelsea Heights Hotel (BMG) Pty Ltd
Cherry Hill Tavern (BMG) Pty Ltd
Courthouse Brunswick Hotel (BMG) Pty Ltd
Courthouse Hotel Footscray (BMG) Pty Ltd
Croxton Park Hotel (BMG) Pty Ltd
Daisey's Club Hotel (BMG) Pty Ltd
Excelsior Hotel (BMG) Pty Ltd
First and Last Hotel (BMG) Pty Ltd
Glengala Hotel (BMG) Pty Ltd
Lyndhurst Club Hotel (BMG) Pty Ltd
Manningham Hotel (BMG) Pty Ltd
MGW Hotels Pty Ltd
Aceridge Pty Limited
Chatswood Hills Tavern Pty. Ltd.
Dapara Pty Ltd
Stadform Developments Pty. Limited
Fenbridge Pty. Ltd.
Kawana Waters Tavern No. 3 Pty Ltd
Kawana Waters Tavern No. 1 Pty Ltd
Kawana Waters Tavern No. 2 Pty Ltd
Vicpoint Pty Ltd
Milanos Hotel (BMG) Pty Ltd
Monash Hotel (BMG) Pty Ltd
Moreland Hotel (BMG) Pty Ltd
Nu Hotel (BMG) Pty Ltd
Oakleigh Junction Hotel (BMG) Pty Ltd
Palace Hotel Hawthorn (BMG) Pty Ltd
Powel Hotel Footscray (BMG) Pty Ltd
Preston Hotel (BMG) Pty Ltd
Queensbridge Hotel (BMG) Pty Ltd
Racecourse Hotel (BMG) Pty Ltd
Shoppingtown Hotel (BMG) Pty Ltd
Taverner Hotel Group Pty. Ltd.
Amprok Pty. Ltd.
Auspubs Pty Ltd
Cooling Zephyr Pty Ltd
The Common Link Pty Ltd
E. G. Functions Pty. Ltd.
Elizabeth Tavern Pty. Ltd.
FG Joint Venture Pty Ltd

Fountain Jade Pty. Ltd.
Hadwick Pty Ltd
Markessa Pty. Ltd.
Playford Tavern Pty Ltd
Seaford Hotel Pty. Limited
The Second P Pty Ltd
Kilrand Hotels (Hallam) Pty. Ltd.
Ashwick (Vic.) No.88 Pty. Ltd.
Warm Autumn Pty. Ltd.
Werribee Plaza Tavern Pty. Ltd.
Waltzing Matilda Hotel (BMG) Pty Ltd
Wheeler's Hill Hotel (BMG) Pty Ltd
Andmist Pty. Limited
Australian Liquor and Grocery Wholesalers Pty Ltd
Australian Safeway Stores Pty. Ltd.
Barjok Pty Ltd
Bergam Pty Limited
Calvartan Pty. Limited
Cenijade Pty. Limited
Charmtex Pty Ltd
DSE Holdings Pty Limited
Dick Smith (Wholesale) Pty Ltd
Dick Smith Management Pty Ltd
Dick Smith Electronics Franchising Pty Ltd
Dick Smith Electronics Pty Limited
Dick Smith Electronics Staff Superannuation Fund Pty
DSE (NZ) Limited
David Reid Electronics (1992) Limited
Dick Smith Electronics Limited
Intertan Australia Pty Ltd
Fabcot Pty Ltd
Kiaora Lands Pty Limited
Gembond Pty. Limited
GreenGrocer.com.au Pty Ltd
Grocery Wholesalers Pty Ltd
Jack Butler & Staff Pty. Ltd.
Josona Pty Ltd
Kiaora Lands Pty Limited
Langton's Pty Ltd
Leasehold Investments Pty Ltd
Mac's Liquor Stores Pty Limited
Nalos Pty Ltd
Oxygen Nominess Pty Ltd
Philip Leong Stores Pty Limited
Progressive Enterprises Holdings Limited
Drumstar Pty Ltd
PEH (NZ IP) Pty Ltd
Queensland Property Investments Pty Ltd
Shellbelt Pty. Limited
Universal Wholesalers Pty Limited

Votraint No. 1622 Pty Limited
Woolies Liquor Stores Pty. Ltd.
Woolstar Investments Limited
Woolstar Pty. Limited
Woolworths (International) Pty Limited
Woolworths (HK) Sales Limited
Woolworths (HK) Procurement Limited
Woolworths Wholesale (India) Private Limited
Woolworths New Zealand Group Limited
BWS (2008) Limited
Progressive Enterprises Limited
Caledonian Leasing Limited
Countdown Foodmarkets Limited
Foodtown Supermarkets Limited
Fresh Zone Limited
General Distributors Limited
S R Brands Limited
Supervalue/ Freshchoice Limited
The Supplychain Limited
Wholesale Services Limited
Wholesale Distributors Limited
Woolworths (New Zealand) Limited
Woolworths (Project Finance) Pty. Limited
Woolworths (Publishing) Pty Ltd
Woolworths (Q'land) Pty Limited
Woolworths (R & D) Pty Limited
Woolworths (South Australia) Pty Limited
Woolworths (Victoria) Pty Limited
Statewide Independent Wholesalers Limited
Woolworths (W.A.) Pty Limited
Woolworths Australian Communities Foundation Pty
Woolworths Custodian Pty Ltd
Woolworths Executive Superannuation Scheme Pty
Woolworths Group Superannuation Scheme Pty Ltd
Woolworths Insurance Pte Limited
Woolworths Management Pty Ltd
Woolworths Properties Pty Limited
Dentra Pty. Limited
Weetah Pty. Limited
QFD Pty. Limited
Woolworths Townsville Nominee Pty Ltd
Woolworths Trust Management Pty Limited
Woolworths Trustee No. 2 Pty Limited
Australian Independent Retailers Pty Ltd



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## PROXY FORM

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**APPOINTMENT OF PROXY**  
**GAGE ROADS BREWING CO LIMITED**  
**ACN 103 014 320**

### GENERAL MEETING

I/We

of

being a member of Gage Roads Brewing Co Limited entitled to attend and vote at the General Meeting, hereby

Appoint

Name of proxy

OR

☐

the Chair of the General Meeting

as my proxy or failing the person so named or, if no person is named, the Chair of the General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the General Meeting to be held at 4.00 pm (WST), on 29 June 2009 at 14 Absolon Street, Palmyra, Western Australia, and at any adjournment thereof.

If no directions are given, the Chair will vote in favour of all the Resolutions.

☐

If the Chair of the General Meeting is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of **Resolution 1** and **Resolution 3** please place a mark in this box.

By marking this box, you acknowledge that the Chair of the General Meeting may exercise your proxy even if he has an interest in the outcome of Resolutions 1 and 3 and that votes cast by the Chair of the General Meeting for Resolutions 1 and 3 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 1 and 3 and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 1 and 3.

**OR**

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### Voting on Business of the General Meeting

Resolution 1 – Issue of Placement Shares  
Resolution 2 – Election of Director – Steven Greentree  
Resolution 3 – Ratification of prior issue of Shares

FOR	AGAINST	ABSTAIN
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Please note:** If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority on a poll.

**Signature of Member(s):**

**Date:** \_\_\_\_\_

**Individual or Member 1**

**Member 2**

**Member 3**

**Sole Director/Company Secretary**

**Director**

**Director/Company Secretary**

**Contact Name:** \_\_\_\_\_ **Contact Ph (daytime):** \_\_\_\_\_

**GAGE ROADS BREWING CO LIMITED**  
**ACN 103 014 320**

**Instructions for Completing 'Appointment of Proxy' Form**

1. **(Appointing a Proxy):** A member entitled to attend and vote at a General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
  - **(Individual):** Where the holding is in one name, the member must sign.
  - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
  - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
  - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
  - (a) post to Gage Roads Brewing Co Limited, PO Box 2024, Palmyra DC WA 6961; or
  - (b) facsimile to the Company on facsimile number +61 8 9331 2400,

so that it is received not later than 4.00 pm (WST) on 27 June 2009.

**Proxy forms received later than this time will be invalid.**