



BORN & BRED IN MASHAM, YORKSHIRE

August 2019

Dear Shareholder

Whilst I am pleased to report a second year of trading profit at Black Sheep Brewery, after six years of losses, nobody here is under any illusion of the challenges that lie ahead.

If further evidence was needed that our strategy of diversification into packaging and pubs was the right one, continuing increases in our third party packaging costs and Fuller's recent decision to sell its brewing division to Asahi, the Japanese Brewer, further proves the challenges in the UK brewing sector. Like Black Sheep, Fuller's identified that making sustainable profits from just brewing is incredibly tough.

Progress – York Brewery, our first acquisition

The Report and Accounts highlight the progress we have made on a number of fronts, not least the first acquisition in the Company's history. The York Brewery, pubs and brands were acquired and merged successfully into the Black Sheep business in a few weeks at the turn of the year.

As part of the deal with the Administrator, Black Sheep had the right to occupy the Brewery building in York for six months to sort a number of details with the landlord. The decision to leave the site became inevitable once he assumed a position of radio silence and hit us with a proposed 50% rent increase just before our six months was up.

We are actively looking for somewhere to which we can return to York as I write, but in the meantime, all production has been successfully integrated into Masham, and we have taken out all the brewery assets we wanted to recover from the old building.

Elsewhere, the York Brewery pub sites are on secure agreements and trading well. We are especially pleased with the significant uplift in trade at the Three Legged Mare in York, following refurbishment in March. We have detailed plans to improve the other sites in the near future.

Significant further opportunities

A number of specific projects have been developed in both BSB Retail and the brewery to make Black Sheep Brewery a sustainable, profitable business in the long term which I know is what all stakeholders, including our loyal shareholders, want the management to create on the back of our great brands and culture.

Amongst these opportunities is an exclusive option to purchase a small freehold chain of Yorkshire pubs. The sites are in excellent condition have a healthy and loyal existing trade and will fit perfectly into our portfolio. We are working very closely with a major high street lender, who is interested in providing the debt funding for the purchase. At the same time, we are well advanced in looking at a number of other options to complete the funding package. We are very excited about this opportunity and we hope to be able to report progress on this in the near future.

The most pressing of these transformational projects is the new packaging plant at Fearby Road, which we have highlighted previously.

The need to package our own products has never been more crucially highlighted than by the *additional* £0.4 million we had to spend last year on third party packaging.

/2.

Progress on the packaging project was slowed by the unscheduled acquisition and integration of York Brewery, but more importantly waiting for Local Enterprise Partnership grant money, which is now in place.

The funding for this project has been secured with Royal Bank of Scotland plc and we have already invested over £200,000 on bespoke capital equipment. There is, however, some preparation work needed at the Fearby Road site, which will cost c£250,000, in advance of the line being installed and this is now deemed to be a priority for the business.

To that end, we may seek to use the authority you approved at the last AGM to issue equity as part of a wider funding plan for this strategic key project for the Company. As we have mentioned previously, our own packaging plant will bring a significant reduction in costs, increase our flexibility to supply customers and add to the bottom line once operational. There is a potentially significant added benefit, as it would also allow us to utilise any spare capacity to generate extra revenue (and profit) by contract packaging for other local breweries.

Over the last 18 months, we have engaged Mark Brady of SPARK Advisory Partners Limited to help bring new money into Black Sheep in the form of both debt and equity. The first significant equity capital injection into the company in nearly 30 years.

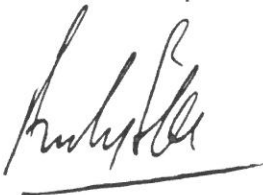
The Board has asked SPARK to operate within a couple of criteria, namely:

- Any investor in Black Sheep may not take overall control of the business, either by share ownership or Board position; and
- Whilst we appreciate that introducing new strategic shareholders into the Company will inevitably involve some dilution to existing shareholdings, that should be limited as far as possible.

The recent financial history of the business and the challenges facing the sector has meant that the pool of potential investors is relatively limited. These discussions have also been challenging and have taken longer than we would have hoped. However, we have made significant progress in recent months – with slight diversions brought about by buying a brewery and some pubs! - but we have a plan to try and bring all this together in the near future. We are in negotiations with some new potential equity funding partners who have indicated that they would like to invest in the business and help us to take it forward and deliver our strategy. We intend to present these plans to shareholders when they are finalised, as we may need your support and approval for some of those plans. As I indicated at the last AGM, in recognition of the existing shareholders' loyalty and support of the business, a central plank of these plans will be to allow all of our shareholders the opportunity to participate in an equity fundraising that the Company looks to arrange as part of a wider funding package, and we intend to honour that pledge. What is now clear is there are potential funders who share our vision for the future of Black Sheep and are keen to support the Board to deliver our strategy.

I look forward to communicating these plans in more detail to you all in the near future.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andy Slee', written over a horizontal line.

Andy Slee
Chairman
Black Sheep Brewery