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5<sup>th</sup> September 2019

Dear Fellow Black Sheep Brewery Shareholder.

### **Black Sheep Brewery PLC**

#### **Further response to the 2019 audited Report & Accounts**

Since writing to you at the beginning of this week, I've received strong and very supportive input from a number of other deeply concerned and unhappy fellow Black Sheep shareholders.

In particular, there is great concern about the evident lack of due-diligence and our Board's very poor decision-making related to the York Brewery acquisition ("Acquisition") (see Note 11 on page 27 of the latest Report & Accounts).

In sum, with the closure of the York Brewery premises in June, all our Board seem to have purchased by their debt-fuelled £668,481 Acquisition, are three, small, leasehold pubs.

I note the Acquisition "Fair Value" in the accounts was increased by 70% over book value before subtracting Deferred tax, without any explanation to support the Adjustments, including an unexplained *doubling* of the value of Trade and other debtors! Most unsatisfactory.

And what independent recommendation justifies the upwards adjustment in Property, plant and equipment by £290,000?

And again, while the release of negative goodwill over the period of the leases to which they relate is an acceptable accounting treatment, under our Company's current, highly leveraged circumstances, it would have been a more prudent approach to have expensed the excess in the last year's accounts and moved on.

Perhaps our auditors, RSM UK Audit LLP can explain their sign-off, as recent accounting scandals of public companies should mean that auditors review everything with a fine toothcomb nowadays.

## **Further debt financing**

Then on the funding for the proposed “packaging project”, I believe Close Brothers have security on Black Sheep’s buildings, and Lloyds on the rest of our Company’s assets, apart from those leased through HSBC. So, I struggle to see where RBS can find their necessary loan security, as I assume they’re hardly likely to lend unsecured. Perhaps the £200,000 of new “bespoke capital equipment” and the soon to-be-undertaken c.£250,000 of “preparation work at the Fearby Road site” will suffice, but for £2 million of new debt I really do wonder.

And on the proposed “significant equity injection”, which I remain convinced will be insufficient, we shareholders should definitely reject the Board’s disadvantageous resolution to disapply our shareholder pre-emption rights.

## **Conclusion**

The more I sift through the latest accounts, the more opaque, and unsatisfactory they appear. The accounts are simply a reflection of a sad, mismanaged Company, rehearsing the same tired excuses for non-performance year-after-year.

Just taking the 5-year summary on page 39, shows our Company has been simply treading water for years, while outstanding competitors like BrewDog, Camden, Four Pure and many others have soared ahead.

It really is time for a change so please

**Vote against Ordinary Resolutions 2, 4, 5 and 7, and against Special Resolutions 13 and 14.**

**At the AGM in Masham on the 19<sup>th</sup> September.**

Best of all, please join me at the AGM.

But if you can’t make it, you can appoint me, **David Nabarro** to vote as your proxy, and you should then return your proxy voting card to the Registrar, carefully marked to show which resolutions you support and that you are voting *against* Ordinary resolutions 2, 4, 5 and 7, and Special resolutions 13 and 14, in an envelope using the Freepost address as follows:

**FREEPOST PXS, 34 Beckenham Road, BR3 9ZA**

## Communication with Shareholders

*Please share the contents of this letter with as many other fellow Black Sheep shareholders as possible.*

Thank you.

If you would like to discuss any of the points made in this letter, or how you should vote, please e-mail me and we can arrange to speak. My mobile telephone number is **07860 511125**.

Hopefully, I will see as many as possible of you in Masham on the 19<sup>th</sup> September.

Yours deeply concernedly and very sincerely,

A handwritten signature in black ink, appearing to read 'David Nabarro', with a stylized flourish at the end.

David Nabarro

Director – MathEngine PLC, a Black Sheep shareholder