June 5th 2019

Dear Fellow Shareholders,

Almost 3 years have passed since Broken Shed Distilleries Inc. acquired Broken Shed Ltd in New Zealand and embarked on a plan to grow and develop the brand in the USA. The journey has been one of pragmatic reinvention, entrepreneurial endeavor, and a colossal amount of hard work but we think we can be proud of what we have achieved so far. A list of highlights includes:

- The assembly of a first rate management team with decades of experience in liquor brand development.
- A marketing team spanning all the states in which we operate.
- Expansion from one small footprint in CT, selling through 20 accounts, to top tier distribution in 17 States selling through almost 3000 accounts in the past 12 months (with several of those states just rolling out)
- A growing pipeline of new distributors looking to grow BSV in their markets.
- Just this afternoon we were notified that BSV has been awarded a Gold Medal (Exceptional) from the Beverage Tasting Institute in Chicago with the accolade "smooth as silk". This is in addition to the Double Gold medal from the Wine and Spirits Wholesalers of America (WSWA), a Gold in The LA Wine and Spirits Awards and a Platinum in the SIP Awards. We are very confident that we have a truly outstanding product that is clearly differentiated from the competition.
- Gluten Free Certification (our new bottles will carry the official certification and we are not aware of any competitors able to do so).

We have, to date, invested over $6MM in the development of the brand in addition to the $2MM invested prior to the acquisition by Broken Shed Distilleries Inc in 2016.

We are not aware of any other challenger brand that has achieved similar growth (without a deal with a major supplier) over the same period and, even though we are still in our infancy, we feel confident that BSV is perceived as a "trail blazer" within the industry.

Our most recent capital raise was closed this past March. We raised $2.25MM at a $20MM pre-money valuation selling Series B Preferred shares in addition to a sale of $250k of common shares at the same valuation. Part of our planning has been to supplement this raise with $500k of additional common equity.

It was our expectation that proceeds from the recent $2.5 MM raise as well as the supplemental $500k raise would carry us through cash flow breakeven. Having reviewed our forecasts, as we detail herein, we have determined it is in the best interest of Broken Shed to raise additional capital beyond that supplement of as much as an incremental $1.5MM.

We continually reevaluate our progress and strategy and we continue to update our forecasting models with information obtained through feedback from distributors and performance data. We have introduced a modeling process that now encompasses a range of forecasts (Low, Central and Target) and that has been adjusted to reflect the primary changed condition: that the initiation of sales in several markets has been later than we had anticipated. These delays have been for a diverse set of reasons, in most cases unique to the markets in question. In some they are related to our changed bottle design. We detail these later in this letter but summarize the conclusion by noting that we think additional capital is prudent, and also that we should explore carrying a limited number of additional brands to generate an additional source of revenue.

As we discuss in more detail below, we believe our management and marketing teams have the capacity to carry additional brands without incremental costs to Broken Shed. Doing so holds the potential to meaningfully defray the costs of these teams and, having explored the question in depth, we are convinced that a brand portfolio, rather than distracting from a brand, instead carries more weight with distributors and vendors, bringing advantages not available to a single brand. We believe the strategy makes compelling business sense.

We set out below a detailed summary of the state of our business. We also detail the rationale for both an additional capital raise and ways we could monetize excess capacity within our marketing teams.

Industry Background / Evaluation

Vodka remains the largest spirits category in the USA. One in three bottles of spirits sold is vodka, and vodka is larger than every category of whiskey, the second largest category set, combined. However, the size of the category is matched by intense competition. The unprecedented growth of Titos over the past 15 years to become the largest US brand at 7.6 million cases (Spirits Handbook 2018) in the past reported year has been disruptive, putting a lot of pressure on the other major brands. Loss of market share has driven incumbent brands such as Ketel One, Grey Goose, Absolut, etc. to cut price and compete aggressively to maintain market share. This has occurred mostly in the lower price $18 - $23 a bottle segment most directly affected by Tito’s. This competition has necessarily resulted in tremendous pressure on distributors to step up and meet the challenge (remember that the major brands are important parts of much larger portfolios that give them a critical advantage) which in turn makes it very difficult for challengers, like Broken Shed and other new entrants, to get a share of mind among their salesforces.

Conversely, the cacophony of squealing about price competition allows us to present BSV in a positive light and as a potentially helpful solution for distributors seeking to meet the disruptive challenge.

- We have a differentiated and demonstrably better product: Additive free, Gluten free, GMO free, made with mineral water, distilled from whey, free of any flavor or texture modifying additives (glycerine from pigs' livers is an industry favorite) and as smooth and clean as any premium vodka, if not more so.
- We are well positioned at c. $25 a 750ml bottle. This is both a premium to where the main price war is occurring and a clear discount to Grey Goose.
- Our pricing allows distributors a full 5% margin advantage over mainstream products.
- We are unique and valued for having our own marketing presence to support the distributor in establishing and growing the brand.
- Our management team are familiar faces with strong relationships across our distributors' management and ownership.

In short we are a better product, differentiated, have a strong story and operate in a constructive and professional / experienced way. We do all we can to make ourselves easy to deal with.

Management Team

Jonathan continues to serve as CEO/President and Sam as Executive Chairman. Additionally, over the past several months we have hired a number of experienced management professionals.

Steve Bellini joined full time in January as COO (principally distributor relationships, sales and marketing). He had been with us since April of 2018 in a consultant role but the scale of the opportunity and our need for full time focus as we accelerate growth made a compelling case for a full time role. We are delighted that he sees the opportunity with BSV as deserving his full time attention.

As we have written previously, Steve is an industry veteran who has held leadership positions at Seagram Americas (President), Future Brands (CEO), (a JV between Jim Beam and Absolut), and most recently Mast Jägermeister (formerly Sidney Frank Importing Company). During the course of Steve's career he has successfully managed the sales and distribution of leading industry brands including, Crown Royal, Captain Morgan, Jameson and Maker's Mark. Steve brings a unique blend of open and control state experience to the Broken Shed family.

Jean Marie Heins has been with BSV as CMO for just over a year and has made a significant impact on our advertising and marketing strategy. Jean-Marie held leadership roles at Sidney Frank Importing Co., Inc. where she was instrumental in the launch and development of brands including Casamigos Tequila, Grey Goose Vodka and Jägermeister, developing and executing a variety of innovative marketing programs for the company's full portfolio of brands.

More recently we have added Paul Criscuolo (January) as National Sales Manager with major focus East of the Rockies and Rodger Reiss (April) as State Manager for California (a role likely to expand geographically as we grow in the west).

Paul worked with Steve at Seagrams in a senior sales role and, after a period at Allied Domecq, managed the Mid-Atlantic Division for Southern Glazers from 2006 to 2017. His experience both as a supplier and with the nation's largest distributor is valuable to us as we expand our distribution footprint.

Rodger, also a Seagrams veteran, was ultimately SVP sales Western Region working with Steve and then moved to manage the west for Pernod Ricard. He has extensive experience in brand development and, like Paul, was most recently engaged developing small challenger brands as a consultant. Their experience will be invaluable to BSV.

The depth of this team and the broad range of skills and experience we collectively bring is powerful, and unlike competitive craft brands. It affords us the bandwidth to grow geographically and potentially market a small number of complementary, non competing additional brands.

Marketing Team / Brand Ambassadors

We started our Brand Ambassador program ("boots on the ground") in October 2016 with one employee in CT. Today we have 20 and by September with our new markets (States) opening up we anticipate 27.

This marketing team is essential to the activation of BSV in each market and very much part of our agreement with new distributors. It does, however, represent a significant part of our investment. They are primarily full-time employees with benefits, who are incentivized through targets and goals.

The strength of our team is notable, yet we are always assessing how it can be improved. Over the past several months we have reevaluated the composition of the team and steadily changed the skill sets and seniority of the personnel. Historically our BAs worked independently of the distributors, generating sales and making bottle placements in on and off premise accounts. In addition they held tastings at liquor stores on Thursdays, Fridays and Saturdays, introducing the brand and growing our base of consumers.

While these activities remain very important to us, we are gradually developing the BAs to become Brand Managers. The difference is that a Brand Manager will have established relationships with the distributor and major (usually chain) accounts in each State. Their focus is to galvanize the distributors reps, implement programs and sales targets, secure larger placements and essentially migrate the model from bottle placements and handselling to large scale, institutional distribution.

We are already seeing the benefits where this has been implemented in CT, WI, NC, NV and CA and the other states are in the process of migrating.

Inevitably these more senior people are more expensive but the case for continuing this evolution is clear to us.

Our planned distribution of Brand Ambassadors is:

Brand ambassadors - CT / New England	6
Brand ambassadors - NJ/DE	3
Brand ambassadors - MD/DC	2
Brand Ambassadors - KY/TN	2
Brand Ambassadors - CA	5
Brand Ambassadors - NV	1
Brand Ambassadors - WI	1
Brand Ambassadors - MI	1
Brand Ambassadors - IL	1
Brand Ambassadors - MO	1
Brand Ambassadors - NC	1
Brand Ambassadors - FL	3
Total	27

IT / Data Driven Account Targeting

In September we implemented two new software suites called VIP IDIG and Karma across our business. To have done so early on was a significant cost and draw on management time but we are now running smoothly with established processes and systems. We recently heard that Southern Glazers (the country's largest distributor) is also adopting this system, as is Tito's. Having recent experience we dread to imagine how difficult these reconfigurations will be and are happy that we adopted VIP so early.

VIP IDIG is a database that sweeps distributors' depletion (sales) data daily. It scrubs the data for sample depletion and makes it available to us on a 24-hour lag. With our marketing teams on the street it is essential to know which orders have been filled and which haven't. It allows us to track distributor performance, monitor goal achievement and evaluate the success of our programming.

Further, VIP/IDIG allows us to comb the data state by date and create target list of accounts for BSV both on and off premise. We have invested a lot of time in using data from various sources to create target account lists. In our first effort we took the universe of accounts in CT, both on and off premise, and ranked it by cases of premium vodka sold. We added a score for geography (weighting wealthier neighborhoods as more desirable) and account qualities (great mixologist, top rated for a particular cuisine, destination appeal) and ran a simple algorithm to rank the accounts for BSV. Finally, we took the list and allocated 4-8 target accounts for each one of the distributors sales people and presented this final list as 120-day goals (with appropriate incentives) to the distributor. The accounts are called "Shed Stars" and securing BSV distribution in each is the distributor rep's priority. In CT there are new 396 target accounts currently in play.

When we first presented a list of target / programmed accounts generated in this manner to our CT distributor they observed that they had never been presented with such a granular list of targets by any supplier. After the shock they embraced it fully and the results to date are encouraging. We are duplicating this effort in other states. This is a very important step in our evolution and ties with the refocusing of our Brand Ambassadors.

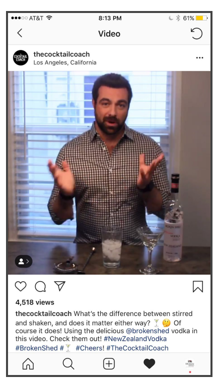
Karma is a separate software package, also from VIP, that allows us to track our Brand Ambassadors. Every account visit is recorded (time and GPS tracked) and they are required to complete a short and changeable questionnaire for each visit. We can track placements and order generation, upsells (e.g. getting a stacked placement or inclusion on a cocktail menu), competitor pricing / promotions and importantly feedback from each account.

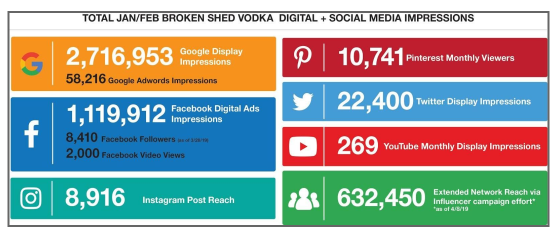
We believe that this information capture and transparency affords us the ability to manage productivity, deal with issues and position our team dynamically.

Collectively we believe that these systems and our utilization of the data will afford us flexibility and an operational advantage in each market where we compete.

Advertising and Consumer Activation

We have made significant progress over the past year with our advertising and branding activities. We redesigned the bottle label, overhauled our social media platforms and initiated an influencer outreach program. In particular, we made contact with several influencers such at the Cocktail Coach and Gluten Free Follow Me to promote Broken Shed in a variety of areas and these are starting to show sizable increases in our social media activity. Our outreach leads to bloggers and freelancers becoming aware of Broken Shed Vodka and including the brand in articles they write for leading publications such as Forbes. We are currently interviewing public relations firms who will amplify our message to influencers and then consumers.





We are constantly promoting the brand to multiple audiences; our target consumer, bar owners and retailers, distributors' salesforce reps and bartenders. Each is important and in order to resonate with all these constituents we are shifting toward a more quality oriented advertising campaign. We are finalising a short list and look forward to sharing the new campaign with you shortly.

The ongoing focus over the next 12 months will be to continue growing the brand with ground support through tastings, promotional material and increased social media presence. However we are also testing a few direct to consumer options and will use the results to develop further programs across additional markets. Trials include a 60 day pilot program using Pandora (TN), Billboards (KY) and event marketing over a series of Shed Star accounts (CT) supported by radio.

Product Development / New Bottle Design / Sizing

To date, Broken Shed has been available only in the 750ml bottle size. This has been a been a material impediment to our growth as 750ml is not the majority SKU in either on or off premise purchases. Addressing this limitation with a range of new sizes has been a high priority for us.

1-Liter Bottle

In general, purchasers for On Premise sales require a 1L bottle and a price point that equates to 70-80c per oz. With just a 750ml it is difficult to manage both a $25 on the shelf price and a 75c oz wholesale price to bars without the contortions of "combo pricing" and other distorting marketing / pricing gymnastics. Simplicity is always a better route. Our 1-liter bottle arrived from New Zealand in May and is currently being released across all our market (except for a couple of control states where the state regulators don't embrace liters). Given that almost 90% of on premise sales are in the liter format we expect this introduction to have a meaningful impact on sales to bars and restaurants. In addition, we enjoy a substantial margin improvement in this larger format. Even with a 10% discount in price / oz to drive on premise sales we benefit from around $4 more gross margin per bottle. We haven't yet modelled this in our sales mix as we would like to see actual data first but it will be a positive.

1.75 Liter Bottle

As the 1L is critical to on premise sales so the 1.75L is a gamechanger off premise. Our 1.75L bottle is now in production and will arrive in New Zealand in early September. With a fair wind this will allow us to have it in the USA by late October in time for the important festive season.

In general, 45% of Vodka sold for off premise consumption are in 750s and 45% are in 1.75L, with the 1L just 5% and small sizes the balance. Of course there are certain markets and demographics where this isn't the case (NY retail prefer the 1L and Atlanta likes 200ml) but it's a good rule of thumb. As such we are confident that the arrival of the 1.75 L will be a significant boost to our off premise performance and look forward to its arrival in the USA later this year.

200ml Bottle

The 200ml is valuable as a vehicle for samples and also for certain markets where demographics favor the format. These can be important markets and we will have the 200ml available by year end. Additionally, we believe that we will be able to use them effectively in NZ for in room hotel offerings (the marketing benefits are likely much greater than the actual sales returns) and similarly in the USA.

New Label / Bottle Design

We have also adjusted the bottle design. The new format has the brand story on the back, a snowy mountain range at the base and a much cleaner, fresher label. The feedback from distributors has been very positive and has caused a ramp in excitement.

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These have all been important evolutionary development steps for BSV, but they have not been easy to achieve. Our original bottle was produced by Saveur in France and, while it was high quality, it was also expensive. Moreover, shipping glass from France to NZ is expensive and environmentally undesirable so we embarked 14 months ago on finding a new source closer to NZ that would reduce cost while maintaining quality.

We had some series hurdles to overcome in finding the right supplier and long lead times to deal with. This resulted in additional costs related to the change in bottle supplier and unforeseeable delays.

We had to find a new supplier, commission new molds and start from scratch. Lead times are approximately 5 - 8 months from commissioning a mould to receiving product. Unfortunately it ended up being 8 months and we had to postpone our mid-Atlantic launch as the distributor insisted on waiting for the new design and both sizes.

These issues are now behind us and we feel that we have a reliable supplier in place.

The new glass represents a meaningful investment and we have spent around $400,000 on glass recently. The old stock (44,000 750 bottles remaining) will be used up on 12 pack cases for CT - the only market which requires a 12 pack case - NZ, Australia and certain control states where liter bottles are not sold.

Distribution

As a single SKU brand, without an affiliation to a major supplier, to have evolved from one State (CT) in 2016 to 3 States (KY and RI) in early 2018 to 17 States today and 22 in sight is a triumph. One other high profile brand owner recently described it (and the case sales achieved relative to the capital invested) as a miracle. In any event we are very proud of it.

As we have written before, the liquor industry in the USA is a 3 tier market comprised of suppliers (like BSV), distributors and permittees. We can only sell to distributors, they can only sell to permittees and no entity can overlap these designations.

The upside of this system is that margins in the USA are the best in the world for everyone except the retailer.

The downside is that it is VERY difficult for new entrants to secure distribution. The proliferation of craft spirits brands is a phenomenon and is eating market share from established incumbents. The industry is well aware of this and major suppliers are motivated buyers of successful challenger brands. However;

1. The major suppliers are putting ever increasing pressure on their distributors to maintain sales in the face of growing competition.
2. Incentive programs are so commonplace and well funded that it's hard to compete for the rep's attention.
3. Consolidation among distributors, where the large players already have every major brand, has created additional bottlenecks where many brands can't get effective distribution. There are now just 3 quasi national organisations (Southern Glazers, Breakthru and RNDC), a handful of super regionals (Horizon, Youngs, Empire, Martignetti and Johnson Bros) and a tail of single state players (some of which are kings of their domain like Lipman, Great Lakes, Allied, Major). The monoliths are difficult to deal with and the minnows struggle to execute.
4. Many of the distributors, as a result of consolidation, are grappling with distracting reorganisations and dislocation.

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As the table above shows, we have been very fortunate in navigating these issues and have managed to ally ourselves with powerful distribution partners. (Information taken from Spirits Handbook 2018

To achieve this our approach has been:

- Patience. Wait for a top tier distributor to be ready for BSV.
- Emphasise outstanding product quality and associated attributes.
- Relationships (Steve and the sales team are very well liked and respected and distributors trust that our pricing, programming and execution will be professional).
- Brand Ambassadors (we make it clear that we will do the initial heavy lifting and this is a very important part of our distributors agreement to carry us).
- Disciplined marketing programs (again the distributors know Jean Marie and appreciate the quality and coherence of what we do).
- Attention to detail, data, and acceptance of commercial reality.

However, taking and maintaining an acceptable share of our distributors' attention is an ongoing trial and demands continual engagement.

We are pleased to report that we now have additional markets where we expect to engage over the next few months including IL, FL (two of the largest, between them representing 17% of vodka consumption in the USA), MO, IN and VA. We expect to have contracts signed for each shortly and others will follow this year.

Case Sales Forecast

Over the past couple of months we have met with all of our distributors to set targets and programming for the forthcoming year. Despite the underlying progress we have enjoyed through state expansion and in market penetration, there are a series of specific issues that have caused unavoidable delays and consequently we are now required to update our models and extend the time we expect to reach breakeven.

This in no way indicates a loss of confidence or a reduced opportunity - we are more confident than ever that BSV can and will become a national brand - but some specific issues have caused us to push out our timing. We outline them here:

1. The delay experienced in receiving new bottle designs and the 1L size meant that our launch in MD, DC and DE was postponed until June 1st while these distributors chose to wait for the new bottles. Given that it typically takes 6+ months to establish broad in-market distribution this likely means that we will not be adequately positioned in these markets for holiday season.
2. The launch in CA was delayed until April due to personnel changes at our distributor, Youngs, and complications scheduling a statewide roll out with them. We have hired 6 promising Brand Ambassadors who have already started with good momentum but the logistics of working with 46 distributor branch offices and multiple armies of reps should not be underestimated. The scale of California is comparable to launching in a country. It will take time but with the arrival of Rodger Reiss, and the experience he brings in operating in the state, we are making good progress.
3. In NJ our distributor, Allied has had serious operational difficulties that have impacted our sales in that state. Following the merger of Allied with R&R Breakthru last year, they have consolidated 6 distribution centers into one new facility. Unfortunately this has proved to be an early Christmas for their competitors. They are still unable to execute reliable deliveries and the reality is that they have prioritized fulfilling the requirements of the major brands at the expense of the smaller players. In time this will resolve itself and we have had a flow of unsolicited apologies from Allied. In the short term we have witnessed an almost complete seizure. We expect that over the next couple of months we will have to essentially relaunch in NJ and we will lose most of the expected growth we had anticipated after a year of diligent spade work in 2018.
4. In MI we have also seen sales slow to a trickle. After a very strong start we had expected 2019 to start with a bang however our distributor, Great Lakes, was awarded the Stoli contract a couple of months ago and have clearly prioritized them over BSV. Distributor portfolio changes are not unusual and can impact sales. It should be expected that an established brand, new to a distributor and profitable, will get outsized attention early in a new relationship even if the best days of that brand are behind it. We are assured that normal service will resume shortly, but it’s June and we must reduce our near term expectations accordingly.
5. In KY SGWS introduced a total reorganisation in January whereby every rep had to reapply for their job. The result was an inability to introduce programming until May and, again, a short term

sales fixation with making numbers for the major brands. This is now resolved and we are seeing a resumption of the progress we had been achieving before the reorganization.

6. In MA we have been impacted by regulatory changes. In particular chains have been stopped from making bulk purchases across the group. This was a direct response to the growth of Total Wine and the competitive impact on independent retailers. As a result is has been difficult to address the major chains as they restructure their operations and compliance, and we have had to readdress sales to those vendors. We now have several important meetings scheduled and believe momentum will be reestablished. Note: MA drives RI and we have reduced our RI 2019 forecasts to reflect this.
7. In NV we suffered launch delays when our chosen Brand Ambassador, who happened to be married to the F&B chief at Bellagio, had to respond to a family emergency out of state. She will not be able to return and join BSV until it is resolved. We wish her well and look forward to reengaging when circumstances allow. In the meantime we were able to retain an outstanding replacement who started work in May. We are certain that a stream of exciting new placements will follow.

These issues have been slow moving and incremental. In every case they represent delays and not derailments. Independently they are small setbacks that have no bearing upon brand potential. But collectively, they are consequential. They have a cumulative impact on a nascent, high growth sales base that is serious and needs immediate attention.

As a result of these disappointments as we regularly review our forecasting process we have recognized the need to change our approach and adopt a 3 scenario model. For planning purposes we will use the Low Case Sales numbers as shown below. We are hopeful that we will exceed those numbers but in assessing our capital adequacy, a more conservative approach is necessary and prudent. Obviously we will continue to adjust these numbers upward as reliable information trends in that direction.

	Actual			Low	Central	Target	Base case
	Launch Date	FY 3/19 A Case Sales	Previous Forecast	FY E 3/20 Case Sales	FY E 3/20 Case Sales	FY E 3/20 Case Sales	FY E 3/21
CT	Sept 16 (CDI May 18)	1312	3000	3000	3500	3700	7000
RI	Apr 17 (Horizon Sept 18)	153	1200	400	500	600	1000
NJ	Sep 17	478	2500	1500	1500	1650	2500
MI	June 18	224	2700	500	650	750	2000
WI	July 18	217	1800	1000	1200	1400	3000
MA	Sept 18	235	2600	1000	1200	1800	3000
TN	Oct 18	143	1200	1000	1000	1100	2000
NH	Nov 18	62	700	500	500	650	1000
KY (SGWS)	Nov 18	212	2200	1500	1500	1650	2500

ME	Jan 19	5	450	100	100	150	250
VT	Jan 19	11	375	120	200	250	250
CA	Apr 19	0	5300	2000	3000	4000	5000
NV	April 19	0	3500	800	900	1000	2000
NC	May 19	0	0	800	1000	1100	2000
DC	Jun 19	0	550	200	400	550	850
DE	Jun 19	0	1000	200	300	350	800
MD	Jun 19	0	1300	500	600	700	1500
FL	TBA	0	0	550	1000	1200	1250
IL	TBA	0	0	700	1000	1200	1500
IN	TBA	0	0	400	400	500	600
MO	TBA	0	0	400	400	500	600
VA	TBA	0	0	200	200	300	300
Total USA Case Sales		**2,709**	**30,375**	**17,370**	**21,050**	**25,100**	**40,900**

Timing of Case Sale Forecasts

We have spent considerable time trying to understand when these issues could have been apparent, or should have been apparent, to us.

We know that the last holiday period was slow but we anticipated that. Most major brands program hard into year end and it is normal for challengers to struggle to garner the same share of mind from distributors. They have numbers to meet and we understand that.

January and February are usually slow across all categories for obvious reasons and the holiday inventory hangover is digested in this timeframe.

We had expected March to show a strong acceleration and indeed we had multiple reasons for encouragement. However, the delays outlined above in some core markets were an unwelcome shock that came into focus as we met with distributors in the spring. Reflecting on the unexpected nature of these surprises and recognising that there are multiple separate issues, we digested these developments and only recently realized that they accumulated to a meaningful time shift and that our forecasts had to be reflected in updated estimates. Given that growth builds on previous sales, the impact is extrapolated into the following year and contributes to the cumulative capital forecast. We do believe that we have several ways to repair the momentum, and that the impact for next year may be less than forecast by that assumption.

Other Highlights by State

Notwithstanding the aggregate disappointments of these delays there are several important, if anecdotal, data points worth mentioning.

CT

We think it is very important that we have not had to change our forecasts in our most established market. Our new State Manager has decades of management experience at CDI, our Connecticut distributor. We believe that with his guidance as well as good execution in the field we will meet or exceed our 3000 case forecast for CT and that the introduction of the 1L and 1.75L later this year we will enable rapid sales momentum to build in both on and off premise accounts.

The data below (2017) is taken from the Distilled Spirits Council (DISCUS) data and includes most major suppliers, with the notable exception of Tito's. It is useful to compare our expected 3000 cases this FY with the competitive universe.

BRAND	2017 CT Case Sales
SMIRNOFF VODKA 80P	97107
ABSOLUT VODKA 80P	40952
SVEDKA SWEDEN 80P	38095
GREY GOOSE 80P	31577
POPOV VODKA 80P	13697
PINNACLE VODKA FRANCE 80P	13472
BELVEDERE VODKA POLAND 80P	5819
FINLANDIA VODKA 80P	5361
SMIRNOFF VODKA 100P	5052
GORDON'S VODKA 80P	3220
KAMCHATKA VODKA 80P	3204
CIROC SNAP FROST VODKA FRANCE 80P	2834
POLAR ICE VODKA CANADA 80P	1750
TANQUERAY STERLING VODKA ENGLAND 80P	1612
EFFEN VODKA 80P	759
ABSOLUT ELYX VODKA 85P	530

CT remains the litmus test for brand development and for trialing our data driven distribution programming. To date it is giving plenty of encouragement and the growth of our sales here has been noticed by distributors in other states.

NH

As a control state our growth is rate limited by the number (and type) of stores we are allocated by the State. To date we are in 14 of the 57 stores and 4 of the top 18 that do the bulk of NH volume. We have not factored in any growth in this footprint for 2019 but on the basis of a good launch we hope that we will be positively surprised.

WI

Our Shed Shakers targeting has recently yielded a significant acceleration in account penetration. Over the past 60 days we have moved from 350 accounts to 521 accounts carrying Broken Shed and 146 of the new accounts are on premise as we wanted.

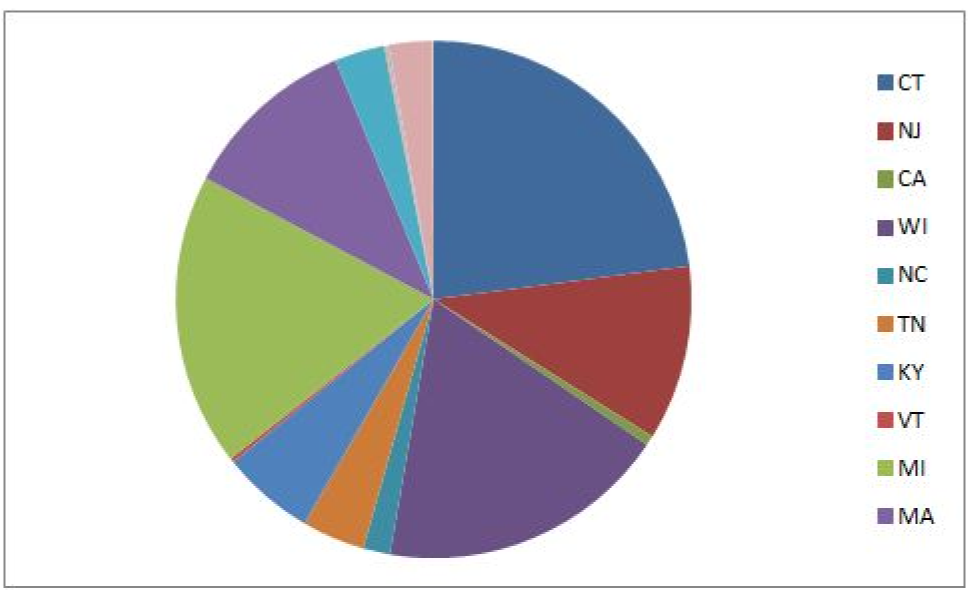
NC

NC (another control state) is off to a strong start with 19 of the 20 largest boards carrying Broken Shed. Almost 100 cases were sold in the first month.

CA

While it's very early days we are happy with the first few weeks. We have seen several multi case sales to large format accounts and initial indications suggest that we have a capable team and some good initial momentum.

<u>Accounts Carrying BSV by State</u>



International Sales

Although NZ itself will not move the needle vs the USA, we can report that FY Q1 sales are already ahead of forecast with a whole month left to run. Australia, where we launched just 4 months ago, have already doubled the initial projection based on faster account growth and again, while it pales in comparison to our near term expectations for the USA, it is important for the brand development that we succeed in the antipodean markets.

We were recently approached regarding distribution opportunities in parts of Asia and Europe, notably the UK. We will continue to develop our strategy for these markets and report again later this year. Europe would require a 700ml bottle size and hence some capital expenditure on new glass (8 month lead time) but Asia could move quite quickly if we can identify an appropriate distribution model and local partner.

Revenue implications of Case Sale Forecast Changes

Under the worst case scenario we laid out above (without modelling any margin improvement from bottle size mix changes) the estimated revenue impact is as follows:

per case		Original Forecast	Worst Case Forecast	Change	Delta
$171.96	Gross Revenue	$5,257,677	$3,103,878	(2,153,799)	-41.0%
$146.96	Net Revenue Post Programming	$4,493,302	$2,652,628	(1,840,674)	-41.0%
$85.86	Gross Margin	$2,625,170	$1,549,773	(1,075,397)	-41.0%

Cost Structure

Naturally, when faced with an unexpected projected shortfall in revenues, a detailed examination of the cost base is warranted. Having explored the several causes and digested the forecast implications we firmly believe that this is a timing issue and not a situation that should result in any retrenchment in growth investment.

Our cost model for 2019 is operationally loaded. We could add to the overall advertising budget but we believe that there are other possibilities, notably contract marketing additional brands, which could create significant additional dollars to spend on brand awareness.

	US$	US$	US$	US$	US$	US$
	Apr - Jun 19	Jul - Sept 19	Oct - Dec 19	Jan - Mar 20	Y/E Mar 20	Y/E Mar 21
USA Gross Operating Income	$172,151	$303,212	$596,073	$493,907	$1,565,343	$3,669,936
(Post COGS and Incentive / Price Programming)						
Brand Ambassadors Payroll	$385,000	$437,500	$437,500	$437,500	$1,697,500	$1,890,000
Management Payroll	$288,000	$303,000	$303,000	$303,000	$1,197,000	$1,212,000
Total Payroll	$673,000	$740,500	$740,500	$740,500	$2,894,500	$3,102,000
Marketing Programs						
Agency Fee	$67,000	$61,000	$61,000	$61,000	$250,000	$250,000
Advertising and PR	$125,000	$125,000	$125,000	$125,000	$500,000	$750,000
Promotional Material	$120,000	$80,000	$60,000	$40,000	$300,000	$500,000
Marketing Programs & Events	$60,000	$70,000	$70,000	$50,000	$250,000	$300,000
Trade Shows & Meetings	$50,000	$0	$0	$0	$50,000	$75,000
NZ Marketing	$12,500	$12,500	$12,500	$12,500	$50,000	$75,000
Total Advertising / Marketing	$434,500	$348,500	$328,500	$288,500	$1,400,000	$1,950,000
IT / Sales Tools / Data	$25,000	$25,000	$25,000	$25,000	$100,000	$100,000
Insurance	$7,000	$7,000	$7,000	$7,000	$28,000	$40,000
Freight and Storage	$7,049	$12,481	$24,682	$20,404	$64,616	$152,148
MHW / Importer	$3,790	$6,710	$13,270	$10,970	$34,740	$81,800
Legal/accounting	$120,000	$40,000	$40,000	$40,000	$240,000	$160,000
Travel / Entertainment	$50,000	$50,000	$50,000	$50,000	$200,000	$250,000
SGA	$1,320,339	$1,230,191	$1,228,952	$1,182,374	$4,961,856	$5,835,948
Profit Before tax	-$1,148,188	-$926,978	-$632,879	-$688,467	-$3,396,513	-$2,166,012

Contract Marketing of Additional Brands

As the cost model above shows, we incur significant cost with our management and marketing infrastructure. On our current distribution footprint we will spend about $3 million this year and that number will rise as we grow.

Our management team has decades of experience developing and managing some of the largest portfolios of spirits brands and it is their belief that the BSV infrastructure could successfully market a small number of complementary, noncompeting products alongside BSV without distractions. In fact, we believe, based on the experience of our management, that a modest line extension (a small portfolio of complementary, non competing products) would help BSV gain greater attention from distributors and accounts.

There are two models typically employed by contract sales organizations in the industry:

1. A reseller model. BSV could strike a deal with a complementary brand, purchase inventory on an exclusive basis, market by market, and distribute via our existing distribution channels. BSV would benefit from the margin on sales to the distributor but would bear some agreed part of the associated marketing costs and all of the commercial risk of execution.

2. A fee Based model. BSV would charge a monthly fee for distribution management and field marketing services. While this does not capture any upside from the brand development and sales growth of partner brands, the fee income would meaningfully defray costs, reduce our case sales breakeven and contribute additional marketing dollars for BSV over and above any capital raised by BSV.

We have a strong preference for option 2 as it does not increase costs or capital requirements, it monetises our inherent marketing capacity and it does not commit BSV to a strategic alignment beyond an agreed contract term.

Given existing market rates for similar services we estimate that this service could be worth around $1m per brand per year across all of our existing distribution. In context, a single contract would reduce our breakeven case sales by as much as 10,000 cases (c.20%).

Implied Capital Requirements

BSV’s additional capital requirement will depend on whether and how quickly we execute a brand extension strategy. Without it, our Low Case forecast would require us to raise approximately $1.5MM of additional capital in addition to the $500k of supplemental capital we had planned prior to the forecast changes. We will keep you informed of developments but plan to move on this raise immediately.

Shareholder Meeting

We propose to hold a shareholder meeting in the Fall at a convenient location (likely NY or Chicago). We will use this event to introduce BSV's management team, whom many of you have expressed interest in meeting and will make presentations and showcase ongoing progress and developments. Further information will follow as well as a dial in for those unable to attend.

New Member of the Board of Directors

We are delighted to welcome Mike Hughes to the Board of Directors. Mike is a founder and partner of Pine Crest Capital LLC, a private investment firm located in Evanston, Illinois. He was formerly the Head of European Investments at Citadel Investment Group. He is a graduate of the University of Virginia and Columbia Law School. Mike is also a director of FedData Holdings LLC and Vive Chairman of Dundalk FC Ltd.

Call to Action

No Instagram post or billboard can ever trump the power of word of mouth. Wherever you live, work or travel, please ask for Broken Shed. Please tell your friends, request it at your clubs, serve it at your parties and promote it as widely as possible! If your retailer or favorite restaurants don't know of BSV please have them order a bottle (or better still a case).

We thank you for your support and appreciate your commitment to making Broken Shed the success it deserves to be.

If you have any questions, would like to discuss anything or would like further information please feel free to call us at any time.

Yours sincerely,

Jonathan and Sam

Attached:

Y/E 3/19 Draft Accounts
Updated Investor Presentation
Recent Chilled Magazine Review

This document contains “forward-looking” statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to Broken Shed Distilleries, Inc. (along with its subsidiaries, “Broken Shed”), anticipated cost savings or synergies, expected investments, anticipated tax rates, expected cash payments, outcomes of litigation, and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside Broken Shed's control. The statements made in this document should not be relied upon for purposes of making investment decisions. A more comprehensive set of risk factors is available from Broken Shed in connection with its private offering documents.

Any forward-looking statements made by or on behalf of Broken Shed speak only as of the date they are made. Broken Shed does not undertake to update specific forward-looking statements to reflect any changes in Broken Shed's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.