

RUSSELL BREWERIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

AUDITORS' REPORT

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSSELL BREWERIES INC.
(Formerly New Market Ventures Inc.)
MANAGEMENT DISCUSSION
June 30, 2005
(Prepared by Management)

PREPARED AS OF November 10, 2005

Contact Information

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OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

Through its wholly owned subsidiary, Russell Brewing Company Ltd., Russell Breweries Inc. owns and operates a Vancouver-based microbrewery through which it produces draught beer for fine pubs and eateries in British Columbia. The Company's facilities, which include corporate offices, a plant, machinery, office equipment and storage, are located in South Surrey. The brewery offers main product lines include Russell Cream Ale, Russell Pale Ale, Russell Honey Blonde Ale, Russell Extra Special Lager, as well as two seasonal brews: Russell Lemon Ale and Russell Christmas Ale.

At June 30, 2005, Russell Breweries Inc., on a consolidated basis, held assets of \$944,822 including cash of \$84,045, accounts receivable of \$118,751, inventory recorded at \$148,548 and property, plant and equipment recorded at \$512,699. At the same date, the Company had liabilities totalling \$593,604, including a \$97,476 demand bank loan, accounts payable and accrued liabilities of \$144,783 and long term debt of \$273,863 relating to capital leases and a bank loan.

Russell Breweries Inc. incurred a net loss of \$624,820 for the fiscal year ended June 30, 2005 as compared to a loss of \$132,871 in fiscal 2004. The increase in net loss is primarily a result of stock based compensation of \$264,978 recorded in the fiscal year ended June 30, 2005 in respect of stock options granted to our directors, as well as increases in labour costs (from \$54,985 in fiscal 2004 to \$244,331 in fiscal 2005), professional fees (from \$40,031 in fiscal 2004 to \$124,552 in fiscal 2005) and promotion (from \$14,521 in fiscal 2004 to \$111,670 in fiscal 2005). During fiscal 2005, the Company realized gross profit from operations of \$445,177 (\$777,054 in sales less cost of sales of \$331,877). During the fiscal year ended June 30, 2005, the Company also incurred selling, general and administrative expenses of \$985,143 consisting of the following:

Advertising:	\$35,967
Automotive costs:	\$56,389
Bank charges:	\$9,087
Insurance costs:	\$3,603
Interest on bank loan:	\$8,268
Licenses:	\$1,424
Miscellaneous office costs:	\$10,314
Office supplies:	\$4,357
Repairs and maintenance:	\$11,217
Smallware:	\$4,018
Labour:	\$244,331
Management fees:	\$22,500
Professional fees:	\$124,552

Promotion:	\$111,670
Rent and utilities:	\$42,421
Stock based compensation	\$264,978
Telephone:	\$8,540
Transfer agent and filing fees:	\$21,507

In addition, the Company recorded amortization costs of \$74,804 and interest on long term debt of \$10,050.

SELECTED ANNUAL INFORMATION

The following table sets forth selected financial information of the Company for the last three fiscal years. This financial information is derived from the audited financial statements of the Company:

Item	Year ended June 30, 2005	Year ended June 30, 2004	Year ended June 30, 2003
Total Revenue	\$777,054	\$161,008	\$60
Total Income (Loss) from Continuing Operations	(\$624,820)	(\$132,871)	(\$47,429)
Operating Income (Loss) per Share	(\$0.10)	(\$0.02)	(\$0.04)
Net Income (Loss) in Total	(\$624,820)	(\$132,871)	(\$47,429)
Net Income (Loss) on a per Share Basis	(\$0.10)	(\$0.02)	(\$0.04)
Total Assets	\$944,822	\$334,064	\$63
Total Long Term Financial Liabilities	\$273,863	\$9,743	Nil
Cash Dividends Declared per Share	Nil	Nil	Nil

The substantial increase in total revenue in the fiscal year ended June 30, 2005, as well as total assets, is due to the expansion of the Company's business operations. The substantial increase in net loss was primarily due to stock based compensation expense recorded in connection with the Company's grant of stock options to directors (\$264,978) and an increase in expenses related to the Company's listing of its shares on the CNQ and business operations.

The substantial increase in net loss and total assets in the fiscal year ended June 30, 2004 is a result of the Company's acquisition of Russell Brewing Company Ltd. in fiscal 2004. Primarily as a result of the acquisition, the Company's total assets increased from \$63 in fiscal 2003 to \$334,064 in fiscal 2004, which included property, plant and equipment recorded at \$221,600 that related to the brewery operations. The Company's net loss in fiscal 2003 (\$47,429) was significantly lower than in fiscal 2004 (\$132,871), due to losses it incurred from its brewery operations in fiscal 2004, including \$184,658 selling, general and administrative costs and \$35,851 in amortization expense.

SUMMARY OF QUARTERLY RESULTS

The following is selected financial information from the Company's eight most recently completed fiscal quarters:

	4 th Qtr. ended 6-30-05	3 rd Qtr. ended 3-31-05	2 nd Qtr. ended 12-31-04	1 st Qtr. ended 9-30-04	4 th Qtr. ended 6-30-04	3 rd Qtr. ended 3-31-04	2 nd Qtr. ended 12-31-03	1 st Qtr. ended 9-30-03
Total Revenues	\$313,815	\$185,511	\$146,338	\$131,390	\$123,078	\$37,930	Nil	Nil
Operating Loss	(\$431,197)	(\$106,794)	(\$67,765)	(\$19,064)	(\$63,024)	(\$53,226)	(\$11,372)	(\$5,249)
Operating Loss Per Share	(\$0.07)	(\$0.02)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)

	4 th Qtr. ended 6-30-05	3 rd Qtr. ended 3-31-05	2 nd Qtr. ended 12-31-04	1 st Qtr. ended 9-30-04	4 th Qtr. ended 6-30-04	3 rd Qtr. ended 3-31-04	2nd Qtr. ended 12-31-03	1 st Qtr. ended 9-30-03
Total Net Loss	(\$431,197)	(\$106,794)	(\$67,765)	(\$19,064)	(\$63,024)	(\$53,226)	(\$11,372)	(\$5,249)
Total Net Loss Per Share	(\$0.07)	(\$0.02)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.00)

LIQUIDITY

Russell Breweries Inc. generates revenue through the distribution of beer produced by its wholly owned subsidiary, Russell Brewing Company Ltd. In the fiscal year ended June 30, 2005, the Company realized revenue of \$777,054 through the sale of its beer products. However, due to cost of sales of \$331,877 and operating expenses of \$1,069,997, the Company incurred a net loss of \$624,820 for the year. Ongoing operations are funded from cash on hand (\$84,045 at June 30, 2005) and from private placements of the Company's common shares. In addition, Russell Breweries Inc. had accounts receivable at June 30, 2005 of \$118,751, which it reasonably expects to collect.

At June 30, 2005, the Company had cash on hand of \$84,045, which covers administrative expenses for approximately two months. Most administrative expenses will be paid from expected revenue from operations.

Russell Breweries Inc. does not currently have a specific plan regarding how it will obtain future funding. However, management anticipates that additional financing will be obtained through the sale of its common shares.

CAPITAL RESOURCES

The Company has the following outstanding commitments with respect to its assets:

- a) The Company acquired a vehicle under a capital lease from Suzuki Canada Credit with a term of two years. This lease bears interest at a rate of 0.90% per annum, and is repayable in monthly installments of \$313, plus interest. The lease is secured against the vehicle subject to the lease.
- b) The Company acquired three additional vehicles under a capital lease from Totem Leasing with a term of three years. This lease bears interest at a rate of 12.5% per annum, and is repayable in monthly installments of \$862, plus interest. The lease is secured against the vehicles subject to the lease.
- c) In July 2004, the Company obtained a Canadian government guaranteed bank loan from Scotia Bank in the amount of \$250,000. The Company has drawn down against the bank the amount of \$242,743. The principal is being repaid on a straight line basis over 54 months from January 2005.
- d) The Company entered into an operating lease for its premises which expires January 2007, with an option to renew for a further three years. Refer to Note 12 to the Company's financial statements for the period ended June 30, 2005.
- e) During the year ended June 30, 2004, the Company received a loan of \$150,000 from Vancouver City Savings & Credit Union with a term of four years. The loan bears interest at prime plus 3% per annum, repayable in monthly installments of \$3,125, plus interest. The loan is secured by a demand promissory note, a general security agreement against all of the Company's property and a guarantee of postponement of claim of \$37,500 by a director of the Company.

MANAGEMENT

Russell Breweries Inc.'s Board of Directors consists of Brian Harris, Andrew Harris and John Morgan. Mr. Andrew Harris acts as President. During the fiscal year ended June 30, 2005, the Company paid or accrued management fees of \$22,500 to Andrew Harris, consulting fees of \$28,000 to John Morgan, salary of \$36,500 to Mark Russell (a former director of the Company) and total compensation for services to various relatives of Brian Harris and Andrew Harris of \$60,295. Brian Harris and Andrew Harris are father and son.

SHARE DATA

As of the date of this management discussion, New Market has 8,658,469 common shares without par value issued and outstanding. In June 2005, the Company announced an private placement with a venture capital group consisting of the sale of 1,500,000 common shares at \$0.375 for gross proceeds of \$562,500. To date, the Company has received \$500,125 of these proceeds. The private placement is subject to CNQ acceptance for filing.

During the fiscal year, the Company granted incentive stock options on 885,000 common shares in its capital, exercisable for up to four years at a price of \$0.58 per share.

The Company does not have any share purchase warrants or any other contingent obligation to issue shares outstanding.

INVESTOR RELATIONS

No investor relations activities were undertaken by or on behalf of the Company during the period. There is no existing trading market for the Company's securities.

ADDITIONAL INFORMATION

Additional information relating to New Market Ventures Inc. is located at www.sedar.com and www.russellbeer.com.

AUDITORS' REPORT

To the Shareholders of Russell Breweries Inc.

We have audited the consolidated balance sheets of Russell Breweries Inc. as at June 30, 2005 and 2004 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/ Lancaster & David

CHARTERED ACCOUNTANTS

Vancouver, BC
October 21, 2005

**RUSSELL BREWERIES INC.
CONSOLIDATED BALANCE SHEETS**

	June 30, 2005	June 30, 2004
ASSETS		
CURRENT		
Cash	\$ 84,045	\$ 9,055
Accounts receivable	118,751	57,323
Due from related parties (Note 5)	51,560	16,602
Inventory (Note 7)	148,548	25,539
Prepaid expenses and deposits	19,206	3,945
	422,110	112,464
PROPERTY, PLANT AND EQUIPMENT (Note 8)	512,699	221,600
TRADEMARKS	1,800	-
DEFERRED COSTS	8,213	-
	\$ 944,822	\$ 334,064
LIABILITIES		
CURRENT		
Demand bank loan (Note 9)	\$ 97,476	\$ 134,375
Accounts payable and accrued liabilities	144,783	79,846
Advances payable	-	73,501
Due to related parties	-	27,848
Current portion of long-term debt (Note 10)	50,004	-
Current portion of obligations under capital leases (Note 11)	27,478	3,756
	319,741	319,326
LONG TERM DEBT (Note 10)	167,737	-
OBLIGATIONS UNDER CAPITAL LEASES (Note 11)	106,126	9,743
	273,863	9,743
	593,604	329,069
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 3)	859,990	254,050
SHARE SUBSCRIPTIONS (Note 3 and 13)	100,125	-
CONTRIBUTED SURPLUS (Note 4)	264,978	-
DEFICIT	(873,875)	(249,055)
	351,218	4,995
	\$944,822	\$ 334,064

Approved on behalf of the Board:

/s/ Andrew Harris

Andrew Harris - Director

/s/ Brian Harris

Brian Harris – Director

The accompanying notes are an integral part of these consolidated financial statements

**RUSSELL BREWERIES INC.
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**

	Year ended June 30, 2005	Year ended June 30, 2004
SALES	\$ 777,054	\$161,008
COST OF SALES	331,877	69,249
	445,177	91,759
EXPENSES		
Amortization	74,804	35,851
Interest on long term debt	10,050	4,121
Selling, general and administrative	985,143	184,658
	1,069,997	224,630
NET LOSS FOR THE PERIOD	624,820	132,871
DEFICIT, BEGINNING OF PERIOD	249,055	116,184
DEFICIT, END OF PERIOD	\$873,875	\$249,055
LOSS PER SHARE – Basic and diluted	(\$.10)	(\$.02)
Weighted average number of shares outstanding	6,531,000	5,728,000

The accompanying notes are an integral part of these consolidated financial statements

**RUSSELL BREWERIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended June 30, 2005	Year ended June 30, 2004
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the year	\$ (624,820)	\$ (132,871)
Adjusted for non-cash items:		
Amortization	74,804	35,851
Stock compensation expenses	264,978	-
Share capital issued for debt	101,362	-
	(183,676)	(97,020)
Net changes in non-cash working capital items:		
Accounts receivable	(61,428)	(43,555)
Prepaid expenses and deposits	(15,261)	(2,348)
Inventory	(123,009)	(13,039)
Accounts payable and accrued liabilities	64,937	42,529
Advances payable	(73,501)	80,435
Due to and from related parties	(62,806)	(37,636)
	(454,744)	(70,634)
INVESTING ACTIVITIES		
Deferred costs	(10,266)	-
Purchase of property and equipment	(363,850)	(32,253)
Trademarks	(1,800)	-
Acquisition of subsidiary	-	(35,995)
	(375,916)	(68,248)
FINANCING ACTIVITIES		
Share subscriptions	100,125	-
Capital lease, net of repayments	120,105	13,499
Bank loan, net of repayments	180,842	134,375
Share capital issued for cash	504,578	-
	905,650	147,874
(DECREASE) INCREASE IN CASH	74,990	8,992
CASH, BEGINNING OF YEAR	9,055	63
CASH, END OF YEAR	\$ 84,045	\$ 9,055

Supplemental Cash Flow Information

Interest paid	\$ 10,050	\$ 4,121
Income taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - NATURE OF OPERATIONS

The Company was incorporated under the British Columbia Company Act on March 23, 2000, and was originally formed with the intent that it would be a capital pool company pursuant to the policies of the TSX Venture Exchange. The Company filed a prospectus with the British Columbia Securities Commission however failed to complete the offering there under and failed to complete its application to have its securities listed on the TSX Venture Exchange as a capital pool company. On January 4, 2004, the Company entered the microbrewery industry with the acquisition of 100% of the issued and outstanding share capital of Russell Brewing Company Ltd., a Vancouver-based microbrewery and for consolidation purposes, changed the date of the Company's year-end to June 30. Refer to Note 5. During fiscal 2005, the cease trade order that was imposed on the company in 2003 was lifted and the Company was reactivated as a fully reporting public company in compliance and shortly thereafter commenced trading on the CNQ Stock Exchange. In conjunction with this, the Company changed its name from New Market Ventures Inc. to Russell Breweries Inc and completed a share split such that every one issued common share prior to split was exchanged into four post-split common shares. Refer to note 3.

The Company has neither a history of earnings nor has it paid any dividends and it is unlikely to pay dividends or enjoy earnings in the immediate or foreseeable future. At June 30, 2005, the Company has working capital of \$102,371 (June 30, 2004 deficiency - \$206,862) and has accumulated losses from inception of \$608,897. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations and to generate sustainable significant revenue. There is no guarantee that the Company will be able to raise any equity financing or generate profitable operations. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Principals of Consolidation

These financial statements have been prepared on a consolidated basis and include the accounts of the Company and its wholly owned subsidiary, Russell Brewing Company Ltd. All significant intercompany transactions and balances have been eliminated.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired. At the end of each period presented, there were no cash equivalents.

Estimates, Assumptions and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ materially from those estimates and assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Financial Instruments

The fair values of cash, accounts receivable, inventory, prepaid expenses, demand bank loan, due to / from related parties, accounts payable and accrued liabilities were estimated to approximate their carrying values due to the immediate or short term maturity of these financial instruments. It was not practicable to determine the fair value of the amounts due to / from the related parties. The amounts due to / from the related parties are non-interest bearing and have no specific terms of repayment. Management does not believe the Company is exposed to significant credit, foreign currency or interest rate risks.

Loss Per Share

Basic and diluted loss per share figures is calculated using the weighted monthly average number of shares outstanding during the respective fiscal periods. Diluted loss per common share amounts reflects the effects of potentially dilutive securities, including stock options, when dilutive, under the treasury stock method.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is recognized upon delivery of product to the customer, and when collection is reasonably assured. Net revenue represents the gross revenues of \$928,167 (June 30, 2004 - \$196,110) less applicable duties and fees levied by the applicable provincial liquor board.

Inventory

Raw materials, work-in-process and finished goods are valued at the lower of cost and net realizable value. Returnable containers are recorded at cost and are amortized over their useful lives.

Deferred Financing Costs

Deferred financing costs represent the cost of issuance of long-term debt. Amortization is provided on a straight-line basis over the term of the debt.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and amortized on the declining balance basis at the following annual rates: computers – 30%; equipment – 30%; office furniture and fixtures – 20%; vehicles – 30%; website – 30%. Leasehold improvements are amortized on a straight line basis over 5 years.

Stock-based Compensation Plans

The Company grants stock options under a fixed stock option plan in accordance with the CNQ Stock Exchange policies (Note 4). Any consideration paid by directors and employees on exercise of stock options is credited to share capital. The Company follows the recommendations exercise of the Canadian Institute of Chartered Accountants with respect to Section 3870 “Stock-Based Compensation and Other Stock-Based Payments”. The recommendations require the expensing of all stock-based compensation awards using a fair value based method of accounting.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. The Company has non-capital losses for Canadian income tax purposes of approximately \$609,000 to be used to reduce future taxable income in Canada, which expires commencing in fiscal 2007. In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. A valuation allowance has been provided against all net future tax assets, as realization of such net assets is uncertain.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 - SHARE CAPITAL

The company's authorized share capital consists of 400,000,000 common shares without par value. (June 30, 2004-100,000,000 common shares without par value)

Changes in the share capital of the company during the year are shown below.

	<u>Common Shares</u>	<u>Value</u>
Issued at June 30, 2003	1,333,334	\$ 100,000
Allotted for purchase of Russell Brewing Company Ltd. (Note 6)	205,000	154,050
Issued and allotted at June 30, 2004 (pre 4:1 forward split)	<u>1,538,334</u>	<u>\$ 254,050</u>
After 4:1 forward split (April 7, 2005)	6,153,336	254,050
Private Placements	2,109,466	504,578
Shares issued in settlement of debt	395,667	101,362
Issued at June 30, 2005	<u>8,658,469</u>	<u>\$ 859,990</u>

During the year ended June 30, 2005 the Company issued 2,109,466 common shares pursuant to a series of private placements for net proceeds of \$504,578 and 395,667 common shares pursuant to the settlement of debt of \$101,362.

The Company does not have any share purchase warrants or any other contingent obligation to issue shares outstanding.

Under the requirements of the stock exchange 1,102,500 common shares of the company outstanding capital are held in escrow for some directors of the company and will be release as follows:

Date of Release	Number of Shares Released
May 2, 2006	220,500
November 2, 2006	220,500
May2, 2007	220,500
November 2, 2007	220,500
May2, 2008	<u>220,500</u>
	<u>1,102,500</u>

In June 2005, the company announced an agreement with a venture capital group for a private placement of \$562,500 made up of the sale of 1,500,000 common shares of its capital at \$.375 per share. As of June 30, 2005, the company had received a total of \$100,125 in subscriptions.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4 – STOCK OPTION PLAN

The Board of Directors is authorized, pursuant to the Company's Stock Option Plan to grant options to directors, officers, consultants or employees acquiring up to 10% of the issued and outstanding common shares from time to time. The exercise price will not be less than the market price of the common shares less applicable discounts permitted by the CNQ Stock Exchange. The options may be granted under this plan exercisable over a period not exceeding five years.

In May 2005 the Company granted stock options to purchase up to 885,000 common shares exercisable at a price of \$ 0.58 on or before May 18, 2009.

A summary of the changes in the Company's common share purchase options is presented below:

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of year	-	\$ -	-	\$ -
Granted	885,000	0.58	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	-	-
Balance, end of year	<u>885,000</u>	<u>\$0.58</u>	<u>-</u>	<u>\$ -</u>

At June 30, 2005, the following stock options are outstanding:

<u>Exercise Price</u>	<u>Outstanding</u>		<u>Exercisable</u>	
	<u>Number</u>	<u>Weighted Average Remaining Life (in years)</u>	<u>Number</u>	<u>Weighted Average Remaining Life (in years)</u>
\$0.58	885,000	3.89	885,000	3.89

Stock Based Compensation

The fair value of the options granted during the year was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Dividend Yield	Nil
Expected volatility	95%
Risk free rate of return	3.6%
Expected life of options	2 years
Weighted average fair value	\$0.30

For the year ended June 30, 2005, the Company recognized stock based compensation in the amount of \$264,978 (2004-nil), which is included with selling, general and administration expenses.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5 - DUE FROM/TO RELATED PARTIES

- a) At June 30, 2005 directors of the Company were indebted to the Company for \$51,560 from cash advances. During the year ended June 30, 2004, former and current directors of Russell Brewing Company Ltd., were indebted to the Company for \$16,602. These amounts are unsecured, non-interest bearing and have no specific terms of repayment.
- b) During the year ended June 30, 2004, former and current directors provided cash advances of \$27,848 for working capital purposes. These advances are unsecured, non-interest bearing and have no specific terms of repayment.
- c) During the year ended June 30, 2005, directors of the Company received management fees of \$22,500 (2004 - \$17,000), consulting fees and salaries of \$64,500. (2004-nil) During the year ended June 30, 2005, relatives of directors received compensation from the Company in the amount of \$60,295. (2004-nil) These transactions were recorded at exchange value, which was the amount of consideration established and agreed to by the related parties.
- d) During the year ending June 30, 2005 a director purchased 685,000 common shares in the Company for \$85,500 with the share prices ranging from \$0.10 to \$0.30 per share. (2004-nil)

NOTE 6 - ACQUISITION

On January 5 2004, the Company acquired a 100% interest in Russell Brewing Company Ltd. (the "Brewery"), a private microbrewery based in greater Vancouver. The Brewery's facilities, which include corporate offices, a plant, machinery, office equipment and storage, are located in South Surrey, British Columbia. The Brewery sells draught beer in kegs to numerous licensee accounts located in Vancouver consisting primarily of restaurants, nightclubs and bars. The Company paid \$25,000 and issued 205,000 (820,000 post-split) common shares. The Company also advanced \$75,000 to the Brewery to repay outstanding related party loans as a condition of the purchase. The acquisition has been accounted for using the purchase method of accounting with the results of operations included in these financial statements from January 5, 2004, the effective date of acquisition. Details of the net assets acquired are as follows:

Cash		\$ 1,719
Other non-cash working capital deficiency		(35,152)
Property, plant and equipment		225,196
Acquisition costs		<u>(12,713)</u>
Net assets acquired		<u>\$ 179,050</u>
Consideration given:		\$
Cash		25,000
820,000 (post-split) common shares		<u>154,050</u>
		<u>\$ 179,050</u>

NOTE 7 – INVENTORY

	June 30, 2005	June 30, 2004
Finished goods and work-in-progress	\$17,641	\$3,612
Raw materials	11,740	2,066
Returnable containers and small ware, net of amortization	119,167	19,861
	<u>\$148,548</u>	<u>\$25,539</u>

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

	June 30, 2005		June 30, 2004	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computers	\$ 13,146	\$ 6,493	\$ 6,653	\$ 1,444
Equipment	368,526	67,157	301,369	174,523
Leasehold improvements	3,718	960	2,758	2,537
Office furniture and fixtures	9,109	691	8,418	967
Vehicles	234,151	42,733	191,418	42,129
Website	2,450	367	2,083	-
	<u>\$ 631,100</u>	<u>\$ 118,401</u>	<u>\$ 512,699</u>	<u>\$ 221,600</u>

During the year ended June 30, 2005, the Company acquired 4 vehicles under capital leases with costs of \$165,921 (2004- \$15,509), and recorded amortization of \$14,124 (2004- \$1,505) on these vehicles.

NOTE 9 – DEMAND BANK LOAN

Consists of a Vancouver City Savings Credit Union loan with an original term of four years, repayable in monthly installments of \$3,125 plus interest at bank prime rate plus 3% per annum. The loan is secured by a Demand Promissory Note, a general security agreement against all property of the Company, and a guarantee and postponement of claim of \$37,500 by a director of the Company. In accordance with the Canadian Institute of Chartered Accountants Emerging Issues Committee EIC 122 “*Balance Sheet Classification of Callable Debt Obligations Expected to Be Refinanced*”, this obligation has been classified as a current liability.

NOTE 10 – LONG TERM DEBT

Bank of Nova Scotia (“Scotia Bank”)

In July 2004, the Company obtained a Canadian government guaranteed bank loan from Scotia Bank in the amount of \$250,000. To June 30, 2005 the Company has drawn down \$242,743 against this amount. Repayment was interest only at bank prime rate plus 2.5% per annum until December 31, 2004. Commencing January 2005, repayment was \$4,167 per month plus interest at the bank prime rate plus 2.5%, maturing in December, 2010. The loan is secured by a general security agreement over present property and property acquired in the future including all equipment, goods and inventory, property insurance showing loss payee as the Scotia Bank, as well as a personal guarantee of a director in the amount of \$62,500.

Loan amount as at June 30, 2005	\$217,741
Current portion of long term debt	(50,004)
	<u>\$167,737</u>
Future principal repayments are as follows:	
fiscal year ending 2006	\$50,004
fiscal year ending 2007	50,004
fiscal year ending 2008	50,004
fiscal year ending 2009	50,004
fiscal year ending 2010	17,725
	<u>\$217,741</u>

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NOTE 11 – OBLIGATIONS UNDER CAPITAL LEASES

The following is a schedule of the future minimum lease payments of the capital leases expiring on various dates, together with the balance of the obligations.

Fiscal years ended:	
2006	\$46,693
2007	35,039
2008	72,747
2009	11,996
2010	<u>11,996</u>
	178,471
Less amount representing interest ranging from 1% to 13%	<u>(44,867)</u>
Present value of net minimum lease payments	133,604
Less current portion of capital lease payments	<u>(27,478)</u>
	<u><u>\$106,126</u></u>

NOTE 12 – OTHER COMMITMENTS

The Company entered into an operating lease for its premises which expires January 2007, with an option to renew for a further three years. In September 2004 the Company leased additional space under the same terms and conditions as the existing space.

	Operating <u>Leases</u>
Fiscal years ended:	
2006	\$31,892
2007	31,892
2008	<u>7,981</u>
	<u><u>\$71,765</u></u>

NOTE 13 – SUBSEQUENT EVENT

On June 9, 2005, the Company announced an agreement with a venture capital group for a private placement of \$562,500 made up of the sale of 1,500,000 common shares at \$.375 per share. As of June 30, 2005, the Company had received a total of \$100,125 in subscriptions. Subsequent to June 30, 2005 an additional \$199,990 in subscriptions was received.