

RUSSELL BREWERIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSSELL BREWERIES INC.
MANAGEMENT DISCUSSION
June 30, 2006
(Prepared by Management)

PREPARED AS OF October 30, 2006

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, 2006, Russell Breweries Inc., on a consolidated basis, held assets of \$1,081,673 including term deposits of \$101,318, accounts receivable of \$203,403, inventory recorded at \$188,110 and property, plant and equipment recorded at \$547,130. At the same date, the Company had liabilities totaling \$654,172, including bank indebtedness of \$135,439, a \$63,546 demand bank loan, accounts payable and accrued liabilities of \$132,761 and long term debt of \$242,562 relating to capital leases and a bank loan.

Russell Breweries Inc. incurred a net loss of \$319,271 for the fiscal year ended June 30, 2006 as compared to a loss of \$624,820 in fiscal 2005. The decrease in net loss is primarily a result of increased sales of 72% \$1,336,621 (\$777,054 in 2005) and higher gross profit of 65% \$867,626 compared to 57% \$445,177 in the 2005 period. During the fiscal year ended June 30, 2006, the Company also incurred selling, general and administrative expenses of \$1,013,685 consisting of the following:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Advertising and promotion	\$188,427	\$147,637
Automotive	84,722	56,389
Insurance	2,029	3,603
Interest on bank loan	6,464	8,268
Office	32,250	25,182
Repairs and Maintenance	14,076	11,217
Small ware	5,124	4,018
Labour	417,459	244,331
Management fees	96,000	22,500
Professional fees	85,686	124,552
Rent and utilities	66,220	42,421
Stock based compensation (recovery)	(15,696)	264,978
Telephone	19,471	8,540
Transfer agent and filing fees	11,453	21,507

Total \$1,013,685 \$985,143

Labour is 71% higher in the 2006 fiscal year, which corresponds with the increase in sales. Advertising and promotion, automotive, office, repairs and maintenance, rent and utilities, and telephone have also increased in the 2006 fiscal year, which also directly corresponds to the growth in the sales of Russell's beers. Management fees have increased as the CEO and CFO are now receiving a monthly salary of \$4,000 each. In addition, the Company recorded amortization costs of \$155,443 and interest on long term debt of \$17,769.

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, 2006	Year ended June 30, 2005	Year ended June 30, 2004
Total Revenue	\$1,363,621	\$777,054	\$161,008
Total Income (Loss) from Continuing Operations	(\$319,271)	(\$624,820)	(\$132,871)
Operating Income (Loss) per Share	(\$0.03)	(\$0.10)	(\$0.08)
Net Income (Loss) in Total	(\$319,271)	(\$624,820)	(\$132,871)
Net Income (Loss) on a per Share Basis	(\$0.03)	(\$0.10)	(\$0.08)
Total Assets	\$1,081,673	\$944,822	\$334,064
Total Long Term Financial Liabilities	\$242,562	\$273,863	\$9,743
Cash Dividends Declared per Share	Nil	Nil	Nil

The substantial increase in total revenue in the fiscal year ended June 30, 2006, is due to the expansion of the Company's business operations. The substantial decrease in net loss was primarily due to the increase in sales as mentioned above in the discussion of the results of operations.

The substantial increase in total revenue in the fiscal year ended June 30, 2005, as well as total assets, was also due to the expansion of the Company's business operations. The substantial increase in net loss in the fiscal year ended June 30, 2005 is primarily due to stock based compensation of 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 stock exchange and business operations.

SUMMARY OF QUARTERLY RESULTS

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

	4 th Qtr. ended 6-30-06	3rd Qtr. ended 3-31-06	2nd Qtr. ended 12-31-05	1st Qtr. ended 9-30-05	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
Total Revenues	\$400,330	\$272,818	\$346,564	\$316,909	\$313,815	\$185,511	\$146,338	\$131,390
Operating Loss	(\$101,356)	(\$122,698)	(\$48,712)	(\$46,505)	(\$431,197)	(\$106,794)	(\$67,765)	(\$19,064)
Operating Loss Per Share	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.10)	(\$0.07)	(\$0.04)	(\$0.01)
Total Net Loss	(\$101,356)	(\$122,698)	(\$48,712)	(\$46,505)	(\$431,197)	(\$106,794)	(\$67,765)	(\$19,064)
Total Net Loss Per Share	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.10)	(\$0.07)	(\$0.04)	(\$0.01)

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, 2006, the Company realized revenue of \$1,336,621 through the sale of its beer products. However, due to cost of sales of \$468,995 and operating expenses of \$1,186,897, the Company incurred a net loss of \$319,271 for the year.

To fund the ongoing operations, the Company recently closed a brokered private placement on October 17, 2006, raising gross proceeds of \$1,500,000. Net proceeds were \$1,353,500 after issue costs, which consisted of a commission of 7.5% of gross proceeds, a \$5,000 administrative fee, a corporate finance fee of 100,000 common shares, and Bolder Investment Partners, Ltd., the agent, was reimbursed of all expenses related to the private placement. In addition, Russell Breweries Inc. had accounts receivable at June 30, 2006 of \$203,403, which it reasonably expects to collect. Most administrative expenses will be paid from expected revenue from operations. The funds from this private placement will also be used to acquire additional capital equipment, including a bottling line, and for acquisitions.

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. The lease was paid in full February 28, 2006. The Company exercised the buyout and purchased the vehicle in April 2006.
- 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, 2006.
- 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.
- f) In January 2006, the Company acquired a vehicle under a capital lease from Jim Pattison Lease with a term of 24 months. This lease bears interest at 7.95% per annum, and is repayable in monthly installments \$219, plus interest. The lease is secured against the vehicles subject to the lease.
- g) In February 2006, the Company acquired a vehicle under a capital lease from Jim Pattison Lease with a term of 36 months. This lease bears interest at 8.10% per annum, and is repayable in monthly installments \$264, plus interest. The lease is secured against the vehicles subject to the lease
- h) In June 2006, the Company acquired a forklift under a capital lease from Jim Pattison Lease with a term of 48 months. This lease is repayable in monthly installments \$400, plus interest. The lease is secured against the vehicles subject to the lease

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, 2006, the Company paid or accrued management fees of \$48,000 to Brian Harris and Andrew Harris, a salary of \$48,000 to John Morgan, a salary of \$15,000 to Mark Russell (a former director of the Company) and total compensation for services to various relatives of Brian Harris and Andrew Harris of \$104,120. Brian Harris and Andrew Harris are father and son.

SHARE DATA

As of the date of this management discussion, Russell Breweries Inc. has 10,022,135 common shares without par value issued and outstanding. On January 5, 2006, the Company issued 1,363,666 common shares for a private placement at \$0.375 for gross proceeds of \$511,375.

During the 2005 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. These shares were cancelled in April 2006 and 1,000,000 incentive stock options were issued to directors, officers, employees, and consultants at a price of \$0.33 per share, expiring April 13, 2011. In June 2006, 250,000 of these stock options were cancelled, as the Company cancelled its consulting agreement with RSR Holdings which was entered into in April 2006. See Note 4 on June 30, 2006 Financial Statements for further details.

As mentioned above in the liquidity discussion, the Company closed a brokered private placement subsequent to year end, of 5,000,000 units at a price of \$0.30 per unit, with each unit consisting of one common share and one non-transferable common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional share of the company at a price of \$0.50 for a period of two years from the completion of the financing subject to an early expiry provision that once resale restrictions on the shares having expired and upon the Company's shares trading at or above a weighted average trading price of \$0.75 for 20 consecutive days the Company may give notice that the Warrants will expire 30 days from the date of providing such notice.

On October 20, 2006, the Company issued 760,000 stock options for a period of 5 years exercisable at a price of \$0.48 per share.

On October 20, 2006, the Company cancelled 10,000 stock options exercisable at \$0.33 per share with an expiry date of April 13, 2011.

On October 23, 2006, the Company commenced trading on the TSX Venture Exchange.

Other than the above, 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.

ADDITIONAL INFORMATION

Additional information relating to Russell Breweries 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, 2006 and 2005 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, 2006 and 2005, 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 24, 2006

**RUSSELL BREWERIES INC.
CONSOLIDATED BALANCE SHEETS**

	June 30, 2006	June 30, 2005
ASSETS		
CURRENT		
Cash	\$ -	\$ 84,045
Term deposits	101,318	-
Accounts receivable	203,403	118,751
Due from related parties (Note 5)	17,437	51,560
Inventory (Note 6)	188,110	148,548
Prepaid expenses and deposits	20,243	19,206
	530,511	422,110
PROPERTY, PLANT AND EQUIPMENT (Note 7)	547,130	512,699
TRADEMARKS	1,800	1,800
DEFERRED COSTS	2,232	8,213
	\$ 1,081,673	\$ 944,822
LIABILITIES		
CURRENT		
Bank indebtedness	\$ 135,439	\$ -
Demand bank loan (Note 8)	63,546	97,476
Accounts payable and accrued liabilities	132,761	144,783
Current portion of long-term debt (Note 9)	50,004	50,004
Current portion of obligations under capital leases (Note 10)	29,860	27,478
	411,610	319,741
LONG TERM DEBT (Note 9)	121,900	167,737
OBLIGATIONS UNDER CAPITAL LEASES (Note 10)	120,662	106,126
	654,172	593,604
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 3)	1,371,365	859,990
SHARE SUBSCRIPTIONS	-	100,125
CONTRIBUTED SURPLUS (Note 4)	249,282	264,978
DEFICIT	(1,193,146)	(873,875)
	427,501	351,218
	\$ 1,081,673	\$ 944,822

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, 2006	Year ended June 30, 2005
SALES	\$ 1,336,621	\$ 777,054
COST OF SALES	468,995	331,877
	867,626	445,177
EXPENSES		
Amortization	155,443	74,804
Interest on long term debt	17,769	10,050
Selling, general and administrative	1,013,685	985,143
	1,186,897	1,069,997
NET LOSS FOR THE YEAR	319,271	624,820
DEFICIT, BEGINNING OF YEAR	873,875	249,055
DEFICIT, END OF YEAR	\$ 1,193,146	\$ 873,875
LOSS PER SHARE – Basic and diluted	\$ (0.03)	\$ (0.10)
Weighted average number of shares outstanding	9,278,657	6,531,000

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

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

	Year ended June 30, 2006	Year ended June 30, 2005
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the year	\$ (319,271)	\$ (624,820)
Adjusted for non-cash items:		
Amortization	155,443	74,804
Stock compensation expenses	(15,696)	264,978
Share capital issued for debt	-	101,362
	(179,524)	(183,676)
Net changes in non-cash working capital items:		
Accounts receivable	(84,652)	(61,428)
Prepaid expenses and deposits	(1,038)	(15,261)
Inventory	(55,497)	(123,009)
Accounts payable and accrued liabilities	(12,022)	64,937
Advances payable	-	(73,501)
Due to and from related parties	34,124	(62,806)
	(298,609)	(454,744)
INVESTING ACTIVITIES		
Deferred costs	-	(10,266)
Purchase of property and equipment	(167,957)	(363,850)
Trademarks	-	(1,800)
	(167,957)	(375,916)
FINANCING ACTIVITIES		
Share subscriptions	(100,125)	100,125
Capital lease, net of repayments	16,917	120,105
Bank loan, net of repayments	(79,767)	180,842
Share capital issued for cash	511,375	504,578
	348,400	905,650
(DECREASE) INCREASE IN CASH	(118,166)	74,990
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	84,045	9,055
CASH AND CASH EQUIVALENTS, END OF YEAR	(34,121)	84,045
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash (Bank Indebtness)	\$ (135,439)	\$ 84,045
Term Deposits	101,318	-
	\$ (34,121)	\$ 84,045
Supplemental Cash Flow Information		
Interest paid	\$ 17,769	\$ 10,050
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, 2006

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. 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, 2006, the Company has working capital of \$118,901 (June 30, 2005 \$102,371) and has accumulated losses from inception of \$1,193,146. 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. As at June 30, 2006, cash equivalents consisted of term deposits of \$101,318, securing a \$100,000 business line of credit on the chequing account with TD Canada Trust with an interest rate of 3.25% per annum maturing February 5, 2007.

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 and cash equivalents, 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, 2006

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 \$1,586,282 (June 30, 2005 - \$928,167) 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 \$957,000 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, 2006

NOTE 3 - SHARE CAPITAL

The company's authorized share capital consists of 400,000,000 common shares without par value.

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

	Common Shares		Value
Issued and allotted at June 30, 2004 (pre 4:1 forward split)	1,538,334	\$	254,050
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	8,658,469	\$	859,990
Private Placements	1,363,666		511,375
Issued at June 30, 2006	10,022,135	\$	1,371,365

During the year ended June 30, 2006, the Company issued 1,363,666 common shares pursuant to a series of private placements for net proceeds of \$511,375.

As at June 30, 2006, the Company does not have any share purchase warrants or any other contingent obligations to issue shares.

Under the requirements of the CNQ stock exchange, 882,000 common shares of the Company outstanding capital are held in escrow for some directors of the Company and will be released as follows:

Date of Release	Number of Shares Released
November 2, 2006	220,500
May 2, 2007	220,500
November 2, 2007	220,500
May 2, 2008	220,500
	882,000

In October 2006, the Company closed a brokered private placement of 5,000,000 units at a price of \$0.30 per unit for total proceeds of \$1,500,000, net proceeds of \$1,353,500. Each unit consists of one common share and one non-transferable common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at \$0.50 for a period of two years from completion of the financing subject to an early expiry provision. Upon closing, the brokered agent received a cash commission equal to 7.5% of the gross proceeds. The agent also received 1,000,000 common share purchase warrants exercisable for a period of two years at a price of \$0.30 per unit, an administrative fee of \$5,000, a corporate finance fee of 100,000 common shares, and was reimbursed of all reasonable expenses related to the private placement. All shares issued pursuant to this financing, and shares issued pursuant to the exercise of the agent's warrants, are subject to a four month hold period.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

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 per share on or before May 18, 2009. In April 2006, these stock options were cancelled and the Company granted 1,000,000 incentive stock options exercisable at a price of \$0.33 per share and an expiry date of April 13, 2011. On June 15, 2006, 250,000 of these stock options were cancelled.

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

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	885,000	\$ 0.58	-	\$ -
Granted	1,000,000	0.33	885,000	0.58
Exercised	-	-	-	-
Forfeited/Cancelled	(1,135,000)	0.52	-	-
Balance, end of year	750,000	\$ 0.33	885,000	\$ 0.58

At June 30, 2006, the following stock options are outstanding:

Exercise Price	<u>Outstanding</u>		<u>Exercisable</u>	
	Number	Weighted Average Remaining Life (in years)	Number	Weighted Average Remaining Life (in years)
\$0.33	750,000	4.79	750,000	4.79

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	120%
Risk free rate of return	4.31%
Expected life of options	5 years
Weighted average fair value	\$0.33

For the year ended June 30, 2006, the Company recognized stock based compensation (recovery) in the amount of \$15,696 representing the issuance of 1,000,000 stock options at \$332,376, less the cancellation of 1,135,000 stock options at \$348,072 (2005-\$264,978), which is included with selling, general and administration expenses.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 - DUE FROM/TO RELATED PARTIES

- a) At June 30, 2006 directors of the Company were indebted to the Company for \$17,437 (2005 - \$51,560) from cash advances. These amounts are unsecured, non-interest bearing and have no specific terms of repayment.
- b) During the year ended June 30, 2006, directors of the Company received management fees of \$96,000 (2005 - \$22,500), consulting fees and salaries of \$48,000 (2005 - \$64,500). During the year ended June 30, 2006, relatives of directors received compensation from the Company in the amount of \$104,120 (2005 - \$60,295). These transactions were recorded at exchange value, which was the amount of consideration established and agreed to by the related parties.
- c) During the year ended June 30, 2005, a director purchased 685,000 common shares in the Company through private placements for \$85,500 with the share prices ranging from \$0.10 to \$0.30 per share.

NOTE 6 – INVENTORY

	June 30, 2006	June 30, 2005
Finished goods and work-in-progress	\$ 25,092	\$ 17,641
Raw materials	4,744	11,740
Returnable containers and small ware, net of amortization	158,274	119,167
	\$ 188,110	\$ 148,548

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	June 30, 2006		June 30, 2005	
Cost	Accumulated Depreciation	Net Book Value	Net Book Value	
Computers	\$ 15,678	\$ 8,699	\$ 6,979	\$ 6,653
Equipment	455,742	134,154	321,588	301,369
Leasehold improvements	24,737	2,544	22,193	2,758
Office furniture and fixtures	9,827	2,298	7,529	8,418
Vehicles	288,250	102,885	185,365	191,418
Website	4,825	1,349	3,476	2,083
	\$ 799,059	\$ 251,929	\$ 547,130	\$ 512,699

NOTE 8 – 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.

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NOTE 9 – 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, 2006 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, 2006		\$ 171,904
Current portion of long term debt		<u>(50,004)</u>
		<u>\$ 121,900</u>
Future principal repayments are as follows:	fiscal year ending 2007	\$ 50,004
	fiscal year ending 2008	50,004
	fiscal year ending 2009	50,004
	fiscal year ending 2010	<u>21,892</u>
		<u>\$ 171,904</u>

NOTE 10 – 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:		
2007		\$ 48,294
2008		89,928
2009		25,178
2010		<u>24,396</u>
		187,796
Less amount representing interest ranging from 1% to 13%		<u>(37,274)</u>
Present value of net minimum lease payments		150,522
Less current portion of capital lease payments		<u>(29,860)</u>
		<u>\$ 120,662</u>

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NOTE 11 – 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 year ended: 2007	<u>\$ 19,321</u>
	<u><u>\$ 19,321</u></u>

NOTE 12 – SUBSEQUENT EVENTS

- a) On October 13, 2006, the Company closed a brokered private placement of 5,100,000 units at a price of \$0.30 per unit for net proceeds of \$1,353,500, after issue costs. (See Note 3).
- b) On October 20, 2006, the Company issued 760,000 stock options exercisable for a period of 5 years at a price of \$0.48 per share.
- c) On October 20, 2006, the Company cancelled 10,000 stock options exercisable at \$0.33 per share with an expiry date of April 13, 2011.
- d) On October 23, 2006, the Company commenced trading on the TSX Venture Exchange.