

RUSSELL BREWERIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

AUDITORS' REPORT

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RUSSELL BREWERIES INC.
Management Discussion and Analysis
For the year ended June 30, 2007

The following discussion and analysis prepared as of October 29, 2007 should be read in conjunction with the audited consolidated financial statements and related notes and Management Discussion and Analysis and for the fiscal year ended June 30, 2007 and 2006.

FORWARD LOOKING STATEMENTS

This report contains forward-looking information that is based on the Company's plans, intentions and expectations. By definition, forward-looking information involves risks, uncertainties and assumptions and is not a guarantee of future performance. Actual results could differ significantly from those anticipated, and hence investors should use caution when considering this information.

OVERVIEW

Through its wholly owned subsidiary, Russell Brewing Company Ltd., Russell Breweries Inc. ("the Company") operates a craft brewery based in Surrey, British Columbia. The Company produces premium draught beer for pubs and restaurants in British Columbia. The Company's operations include production facilities, corporate offices, storage facilities, brewing equipment, and delivery and sales vehicles. The brewery's main product lines are Russell Cream Ale, Russell Pale Ale, Russell Honey Blonde Ale, Russell Extra Special Lager, as well as two seasonal products, Russell Lemon Ale and Russell Christmas Ale.

The Company amalgamated with the Fort Garry Brewing Company Ltd. ("Fort Garry") of Winnipeg, Manitoba on October 22, 2007. Fort Garry is Manitoba's largest brewer and distributor of premium quality beers including Fort Garry Dark Ale, Fort Garry Pale Ale, Fort Garry Premium Light, Two Rivers Red and Stone Cold.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS

The Company commenced trading on the TSX Venture Exchange on October 23, 2006 having previously traded on the CNQ Exchange.

In October 2006 the Company completed a \$1,500,000 brokered private placement for net cash proceeds of \$1,353,500.

In February 2007, the Company began ordering new equipment to effectively double the size of its brewing capacity to an estimated 16,000 hectoliters as well as purchasing four (4) new vans and trucks to handle the increase in product distribution. In October 2007, the Company received delivery of its canning line and the bottling line is scheduled to be installed in November / December 2007, all in preparation for the launch of packaged products in the spring of 2008. To accommodate this expansion the Company doubled the size of its premises in April 2007.

In April 2007, the Company entered into an agreement to supply restaurant chain, Sammy J. Peppers with their signature draught beers and Russell Cream Ale. Sammy J. Peppers is a successful, growing restaurant chain with seven Greater Vancouver locations.

In May 2007, the Company announced a three-year partnership agreement making Russell Brewing Company the Official Beer of the BC Lions and BC Place. Beginning with the club's pre-season home

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game on Friday, June 15th versus the Saskatchewan Roughriders, BC Place began carrying a variety of Russell draft products including Russell Extra Special Lager and Russell Pale Ale.

On May 25, 2007 the Company entered into a letter of intent with Fort Garry to purchase all of the common shares of Fort Garry through a Plan of Amalgamation. Holders of common shares in Fort Garry were to have the option to receive either (a) one common share of Russell or (b) one – half of one common share of Russell plus \$0.20 cash; or (c) \$0.40 cash. In addition the Company is to purchase the 4% cumulative preferred shares of Fort Garry for their par value plus any accrued redemption premium and accrued dividends. Pursuant to the Letter of Intent the Company advanced Fort Garry a \$75,000 deposit, which is fully refundable as the Company decided to proceed with the Fort Garry transaction.

On July 27, 2007, the Company completed a Definitive Agreement with Fort Garry to purchase the shares of Fort Garry through a Plan of Amalgamation.

On October 19, 2007 the shareholders of Fort Garry voted in favour of the amalgamation.

On October 22, 2007 the Company completed the amalgamation with Fort Garry. The Company paid cash of \$309,247 and issued 4,203,568 Russell shares for all of the common shares of Fort Garry and the Company paid \$953,726 to purchase the 4% cumulative preferred shares of Fort Garry including their par value and accrued redemption premium and accrued dividends. The Company's costs related to this transaction are estimated in excess of \$350,000.

The transaction has received approval of the TSX Venture Exchange and the shares of Fort Garry were de-listed effective October 22, 2007.

Management believes the merger will provide synergistic cost savings for the two companies and that it can grow the business of Fort Garry to utilize excess production capacity at Fort Garry. The combined companies will be able to serve all four western Canadian Provinces, namely British Columbia, Alberta, Saskatchewan and Manitoba.

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SELECTED ANNUAL INFORMATION

The following table presents selected financial information for the last three fiscal years ended June 30, 2007, 2006 and 2005:

	Year Ended 30-Jun-07	Year Ended 31-Jun-06	Year Ended 31-Jun-05
	Audited	Audited & restated	Audited
	\$	\$	\$
Revenue (net sales)	1,324,234	902,988	517,835
Total income (loss) from continuing operations	(1,201,377)	(382,508)	(624,820)
Operating income (loss) per share	(0.09)	(0.04)	(0.10)
Net income (loss)	(1,201,377)	(382,508)	(624,820)
Basic and diluted earning (loss) per share	(0.09)	(0.04)	(0.10)
Total assets	2,795,597	1,018,436	944,822
Total long term financial liabilities	359,488	242,562	273,863
Cash dividends declared per share	Nil	Nil	Nil

PERFORMANCE AND RESULTS OF OPERATIONS

Prior Period Adjustment

The prior period adjustment of \$63,237 is to correct errors of recording sales and accounts receivable for the year ended June 30, 2006. The errors caused overstatements of sales of \$63,237 resulting in understatements of net loss of \$63,237 and deficit of \$63,237 for the year ended June 30, 2006, as well as overstatements of accounts receivable of \$63,237 as of June 30, 2006. The result was to increase the reported net loss per share from \$0.03 to \$0.04 for the year ended June 30, 2006. The deficit and accounts receivable as of June 30, 2006 and sales for the year ended June 30, 2006 have been restated in accordance with the recommendations of the Canadian Institute of Chartered Accountants with respect to Section 1506 "Accounting Changes" and "Prior Period Adjustments".

Reclassifications

Certain figures in the prior year's financial statements have been reclassified, including gross sales, net sales, cost of sales, amortization, selling costs and administration expense, interest income, cash and cash equivalents and restricted cash to provide more consistency and comparability to the industry standard and with the current year's presentation.

Under these reclassifications, gross sales are shown net of licensee discount, net sales are shown net of excise taxes and provincial mark-up and excludes licensee discount, cost of sales include production labour, freight and amortization on returnable containers, and exclude provincial mark-up, amortization excludes amortization on returnable containers, selling general and administration expense excludes production labour and term deposits pledged against lines of credit are shown as restricted cash. These

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reclassifications did not have any effect on the reported net loss, net loss per share or deficit of any prior period.

For the year ended June 30, 2006, the reclassification reduced gross sales by \$189,730, reduced net sales by \$433,633, reduced cost of goods sold by \$264,385, reduced amortization by \$9,620 and reduced selling, general and administration expenses by \$96,391. Selling, general and administration expenses were also increased by \$4,761 and interest income increased by \$4,761. As at June 30, 2006, cash and cash equivalents were reduced by \$100,000 and restricted cash increased by \$100,000.

Year-to-Date

See Prior Period Adjustment.

Net Sales for the twelve months ended June 30, 2007 were \$1,324,234 up \$421,246 or 46.7% compared to \$902,988 for the twelve months ended June 30, 2006. The gross margin was \$960,957 (72.6% of net sales) up \$262,579 or 37.6% compared to \$698,378 (77.3% of net sales) for the twelve months ended June 30, 2006 as a result of the increase in net sales.

Selling, general and administration expense increased \$1,041,194 or 113% to \$1,950,240 compared to \$922,055 for the twelve months ended June 30, 2006. The increase in expenses is primarily a result of the 46.7% increase in sales, a doubling of capacity at the brewery, and very significant corporate activities including completion of a major equity financing and expenses associated with the migration of the Company from the CNQ Exchange to the TSX Venture Exchange. Specifically advertising and promotion grew \$212,211 or 112.6% to \$400,638 due to major promotions associated with increasing brand awareness e.g. umbrellas and a pro-rate portion of the BC Lions and BC Place sponsorship; a \$51,614 or 60.9% increase in automotive to \$136,336, due to increased expenses related to running new vans and trucks due to increased sales and deliveries; consulting fees and management fees increased \$127,805 or 133% to \$223,805 including a one time charge of \$64,250 to a director and officer; labour increased \$91,855 or 28.1% to \$418,894; office, rent, and repairs and maintenance increased \$99,537 or 89.4% to \$210,873; telephone increased \$47,113 or 242% to \$66,684 and stock based compensation increased \$359,887 or 2,293% to \$344,191 from a credit of \$15,696 in 2006.

In other items interest on long term debt increased \$34,125 or 192% to \$51,894 for the twelve months ended June 30, 2007 due to new capital purchases financed by long term debt offset in part by a \$18,456 or a 388% increase in interest income to \$23,217 compared to the twelve months ended June 30, 2006. Amortization increased \$37,594 or 25.8% to \$183,417 due to increase in capital assets even with re-classing returnable containers to inventory from capital assets.

For the twelve months ended June 30, 2007, the net loss was \$1,201,377 or \$0.09 per share compared to the net loss of \$382,508 or \$0.04 per share for the comparable period in 2006.

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Summary of Quarterly Results

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

Fiscal Year	2007	2007	2007	2007	2006	2006	2006	2006
Quarter	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
				Restated	Restated	Restated	Restated	
	\$	\$	\$		\$	\$	\$	\$
Total net revenues	460,149	338,969	259,753	265,363	277,255	182,487	233,606	209,640
Operating loss	(505,553)	(170,068)	(366,898)	(158,858)	(125,978)	(142,870)	(67,155)	(46,505)
Operating loss per share	(0.03)	(0.01)	(0.03)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)
Total net loss	(505,553)	(170,068)	(366,898)	(158,858)	(125,978)	(142,870)	(67,155)	(46,505)
Total net loss per share	(0.03)	(0.01)	(0.03)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

Net cash used by operating activities in the year ended June 30, 2007 was \$1,027,816 compared to \$308,229 in the year ended June 30, 2006, an increase in net cash use of \$719,587, principally as a result of a \$818,869 increase in loss.

During the year ended June 30, 2007 the Company purchased \$522,125 of capital assets including four vans and trucks, brewing casks and conditioning tanks, returnable containers, and various leasehold improvements compared to \$158,337 in the 2006 period, an increase of \$363,788.

During the year ended June 30, 2007 the Company received \$2,095,386 from financing activities compared to \$348,400 in the year ended June 30, 2006, an increase in financing activities of \$1,746,986. The principle financing activities during the year ended June 30, 2007 were shares issued for net cash of \$1,904,793 and capital leases net of repayments of \$284,078.

The principle financing activities during the year ended June 30, 2006 were shares issued for cash net of share subscriptions, of \$411,250.

Financial condition

As at June 30, 2007, the Company has net working capital of \$524,649 including cash and equivalents of \$166,568. The Company also has \$200,000 of restricted cash, \$100,000 of which is securing bank indebtedness and \$100,000 a capital lease. Long term debt is \$359,488.

The Company completed its acquisition of Fort Garry and the purchase of the Fort Garry preferred shares on October 22, 2007 for a cash component of \$1,262,973 before acquisition costs which are estimated in excess of \$350,000.

On July 27, 2007 the Company completed a \$3,176,500 private placement for gross proceeds of \$3,176,500 to net to \$2,810,000 after commissions and costs – see subsequent events.

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, 2007, the Company has

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working capital of \$524,649 (June 30, 2006 \$44,336 working capital deficit) and has accumulated losses from inception of \$2,457,760 to June 30, 2007.

Funds on hand are not sufficient to fund the combined Company's expected operating losses and planned capital expenditures for the next twelve months. The Company intends to seek additional cash in the equity and / or debt markets as the need arises. There is no guarantee that the Company will be able to raise additional equity or debt financing or generate cash flow from operations.

COMMITMENTS

The Company has entered obligations under capital leases and with future minimum lease payments and balance of the obligation summarized as follows:

	Capital Leases
Fiscal year ending 2008	\$188,535
Fiscal year ending 2009	\$125,329
Fiscal year ending 2010	\$135,821
Fiscal year ending 2011	\$73,705
Fiscal year ending 2012	<u>\$11,635</u>
Total payments and balance of obligation	\$535,025

The Company has entered into an operating lease expiring in January 2010 with payments as follows:

	Premises Lease
Fiscal years ending 2008	\$71,318
Fiscal years ending 2009	\$71,318
Fiscal years ending 2010	\$41,602

RELATED PARTIES

Russell Breweries Inc.'s Board of Directors consists of Brian Harris, CEO, Andrew Harris, President and Chief Financial Officer, John Morgan, Rick Shier and Tom Maroon. During the twelve months ended June 30, 2007, the Company paid or accrued management and consulting fees of \$298,654 for services to Brian Harris, Andrew Harris and their relatives, and \$52,000 to a non-related director for consulting services. Brian Harris and Andrew Harris are father and son.

CRITICAL ACCOUNTING ESTIMATES

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.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Returnable Containers

Returnable containers are recorded at cost and are amortized over their estimated useful lives. There is uncertainty in these estimates in that actual experience may vary from these estimates.

Capital Assets

Capital assets are originally recorded at cost. Property acquired under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of the fair value of the property or equipment and the present value of those lease payments. Depreciation is calculated on the declining balance basis. There is uncertainty in these estimates in that actual experience may vary from these estimates.

Future Income Tax Asset

The Company has not recorded an income tax asset. The Company has determined it has not met the “more likely than not test” required by the CICA Handbook section 3465 “Income Taxes” for these assets to be recorded.

Stock-based Compensation Plans

The Company recognizes compensation expense on options granted to employees, consultants and directors under its option plan. Stock based compensation expense recognized during the year ended June 30, 2007 was \$344,191 (2006: (\$15,696)). Assumptions regarding expected stock volatility and risk free interest rates are required to calculate the fair value of the consideration received.

OUTSTANDING SHARE DATA

The Authorized share capital consists of 400,000,000 common shares without par value.

Outstanding Share Data	Number of Common Shares	Exercise (\$) Price per common share	Expiry Dates
Issued and outstanding as at October 29, 2007	25,899,850*	N/A	N/A
Stock Options	2,165,000	\$0.33 - \$0.55	April 13, 2011 – August 29, 2012
Agent and subscriber warrants	10,121,094	\$0.30 - \$0.75	July 27, 2008** – October 17, 2008***
Fully Diluted as at October 29, 2007	38,185,944	N/A	N/A

*Of which 441,000 shares of the Company are subject to an Escrow Agreement of which 220,500 are released November 2, 2007 and 220,500 May 2, 2008.

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- ** the Issuer's shares trading at or above a weighted average trading price of \$1.00 for 15 consecutive days the Issuer may give notice that the Warrants will expire 30 days from the date of providing such notice.
- ***the Issuer's shares trading at or above a weighted average trading price of \$0.75 for 20 consecutive days the Issuer may give notice that the Warrants will expire 30 days from the date of providing such notice.

SUBSEQUENT EVENTS

a) On July 27, 2007, the Company completed a \$3,176,500 brokered private placement. The Company issued 5,294,166 Units at a price of \$0.60 per Unit, with each Unit consisting of one common share and one non-transferable common share purchase Warrant. Each whole Warrant entitles the holder to purchase one additional share of the Company at a price of \$0.75 per share for a period of one year 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 \$1.00 for 15 consecutive days the Company may give notice that the Warrants will expire 30 days from the date of providing such notice. The proceeds were used for the acquisition of Fort Garry, capital equipment and for general working capital.

The Agents received a cash commission of \$245,782 and 13,896 units (for a total of 8% of the gross proceeds of the Offering). In addition, the Agents were granted 529,417 agent's warrants (the "Agent's Warrant") exercisable for a period of one year from the date of closing of the Offering. Each Agent's Warrant is exercisable into one (1) common share of the Company at \$0.60 per share and will also be subject to early expiry conditions. In addition, the Agents were paid an administrative fee of \$5,000, a Corporate Finance Fee of 50,000 units, and were reimbursed for all reasonable expenses related to the Offering. All shares issued in connection with the offering are subject to a four month hold period.

- b) On August 29, 2007, the Company granted, subject to TSX Venture Exchange approval, incentive stock options in the aggregate of 690,000 common shares to certain directors, officers and consultants, each at a price of \$0.55 per common share for a period of up to five years pursuant to the Company's Stock Option Plan.
- c) In October, 2007, the Company issued 650,300 common shares pursuant to the exercise of 650,300 agent's warrants expiring October 17, 2008 at \$0.30 per share for proceeds of \$195,090.
- d) The Company completed its merger with Fort Garry October 22, 2007- see Business Developments and Significant Events.

RISKS AND UNCERTAINTIES

Credit risk

The Company grants credit to its customers in the normal course of business. However as the major portion of the accounts receivable is the British Columbia Liquor Distribution Branch, management believes exposure to credit risk is limited.

Business Risk

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There are certain inherent risks in the Company's operation that may impact financial results in the future. The most significant risks are as follows:

The Company operates in an environment that is highly competitive and government related. The effects of such competition and regulation may significantly impact financial results in the future.

The Company is reliant on receiving various permits, licenses and approvals from several government agencies to operate in its market areas. The company believes it is compliance with all permits, licenses and approvals.

Disclosure Controls and Procedures

Management has designed internal disclosure controls and procedures over disclosure controls and procedures and financial reporting appropriate for the nature and size of its operations to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company did not make any change in its internal control over financing reporting during the year ended June 30, 2007.

Management has identified certain weaknesses in internal controls over financial reporting as follows:

- 1) Due to a limited number of accounting and administrative staff, it is not feasible to achieve complete segregation of duties.
- 2) Due to a limited number of staff the Company does not have sufficient finance personnel with appropriate technical accounting knowledge to address all complex and non-routine transactions that may arise.

ADDITIONAL INFORMATION

Additional information relating to Russell Breweries Inc. is located at www.sedar.com and www.russellbeer.com. or contact Brian Harris, Russell Breweries Inc., 13018 80 Avenue, Surrey, BC V3W 3B2 ,Telephone: (604) 599-1190 Facsimile: (604) 599-1048

AUDITORS' REPORT

To the Shareholders of Russell Breweries Inc.

We have audited the consolidated balance sheets of Russell Breweries Inc. as at June 30, 2007 and 2006 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, 2007 and 2006, 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 23, 2007

**RUSSELL BREWERIES INC.
CONSOLIDATED BALANCE SHEETS**

	June 30, 2007	June 30, 2006
		<i>(Restated – Note 13)</i>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 543,409	\$ 1,318
Accounts receivable	409,606	140,166
Due from related parties (Note 12)	-	17,437
Inventory (Note 3)	332,780	188,110
Prepaid expenses and deposits	263,092	20,243
	1,548,887	367,274
RESTRICTED CASH (Note 4)	200,000	100,000
CAPITAL ASSETS (Note 5)	903,903	547,130
TRADEMARKS	1,800	1,800
DEFERRED COSTS	141,007	2,232
	\$ 2,795,597	\$ 1,018,436

LIABILITIES		
CURRENT		
Bank indebtedness (Note 2)	\$ 376,841	\$ 135,439
Demand bank loan (Note 6)	24,267	63,546
Accounts payable and accrued liabilities	428,375	132,761
Due to related parties (Note 12)	1,945	-
Current portion of long-term debt (Note 7)	50,004	50,004
Current portion of obligations under capital leases (Note 8)	142,806	29,860
	1,024,238	411,610
LONG TERM DEBT (Note 7)	67,694	121,900
OBLIGATIONS UNDER CAPITAL LEASES (Note 8)	291,794	120,662
	1,383,726	654,172

SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 10)	2,794,158	1,371,365
CONTRIBUTED SURPLUS (Note 10)	1,075,473	249,282
DEFICIT	(2,457,760)	(1,256,383)
	1,411,871	364,264
	\$ 2,795,597	\$ 1,018,436

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, 2007	Year ended June 30, 2006 <i>(Restated – Note 13)</i>
SALES	\$ 1,811,284	\$ 1,396,552
Less excise tax and provincial mark-up	487,050	493,564
NET REVENUE	1,324,234	902,988
COST OF SALES	363,277	204,610
GROSS MARGIN	960,957	698,378
EXPENSES		
Selling, general and administrative	1,950,240	922,055
LOSS BEFORE THE UNDERNOTED	989,283	223,677
OTHER ITEMS		
Amortization	183,417	145,823
Interest on long term debt	51,894	17,769
Interest income	(23,217)	(4,761)
	212,094	158,831
NET LOSS FOR THE YEAR	1,201,377	382,508
DEFICIT, BEGINNING OF YEAR		
As previously reported	1,193,146	873,875
Prior period adjustment (Note 13)	63,237	-
Adjusted balance of deficit, beginning of the year	1,256,383	873,875
DEFICIT, END OF YEAR	\$ 2,457,760	\$ 1,256,383
LOSS PER SHARE – Basic and diluted	\$ 0.09	\$ 0.04
Weighted average number of shares outstanding	13,938,396	9,278,657

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

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

	Year ended June 30, 2007	Year ended June 30, 2006 <i>(Restated – Note 13)</i>
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the year	\$ (1,201,377)	\$ (382,508)
Adjusted for non-cash items:		
Amortization	183,417	145,823
Stock compensation expenses	344,191	(15,696)
	(673,769)	(252,381)
Net changes in non-cash working capital items:		
Accounts receivable	(269,440)	(21,415)
Prepaid expenses and deposits	(242,849)	(1,038)
Inventory	(156,754)	(55,497)
Accounts payable and accrued liabilities	279,561	(12,022)
Due to and from related parties	35,435	34,124
	(1,027,816)	(308,229)
INVESTING ACTIVITIES		
Deferred costs	(144,756)	-
Purchase of capital assets	(522,125)	(158,337)
Restricted cash	(100,000)	(100,000)
	(766,881)	(258,337)
FINANCING ACTIVITIES		
Bank loan, net of repayments	(54,206)	(79,767)
Capital lease, net of repayments	284,078	16,917
Demand loan repayments	(39,279)	-
Share capital issued for cash	1,904,793	511,375
Share subscriptions	-	(100,125)
	2,095,386	348,400
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	300,689	(218,166)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	(134,121)	84,045
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 166,568	\$ (134,121)
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	\$ 56,150	\$ -
Bank Indebtedness	(376,841)	(135,439)
Term Deposits	487,259	1,318
	\$ 166,568	\$ (134,121)
Supplemental Cash Flow Information		
Interest paid	\$ 51,894	\$ 17,769
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, 2007

NOTE 1 - NATURE OF OPERATIONS

The Company was incorporated under the British Columbia Company Act on March 23, 2000. The Company operates a craft brewery based in Surrey, British Columbia, Canada. On October 22, 2007 the Company acquired by way of amalgamation the Fort Garry Brewing Company Ltd. that operates a craft brewery in Winnipeg, Manitoba, Canada. Refer to Note 15(a).

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, 2007, the Company has working capital of \$524,649 and has accumulated losses from inception of \$2,457,760. 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 with initial maturity terms of ninety days or less from the date of purchase, which are carried at the lower of cost or fair market value.

Bank Indebtedness

The Company has a bank operating line of credit of up to \$100,000 with interest at prime maturing August 31, 2010. The operating line is secured by a term deposit of \$100,000. Refer to Note 4.

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, bank indebtedness, accounts receivable, 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, 2007

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 less applicable excise taxes and provincial mark-up.

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.

Prepaid Expenses and Deposits

Prepaid expenses and deposits include a \$75,000 refundable deposit paid to the Fort Garry Brewing Company Ltd. Refer to Note 15 (a).

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.

Capital Assets

Capital assets are originally recorded at cost. Property acquired under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments. Depreciation is calculated 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 the term of the lease.

Stock-based Compensation Plans

The Company grants stock options under a fixed stock option plan in accordance with the TSX Venture Exchange policies (Note 11). 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 \$1,735,650 to be used to reduce future taxable income in Canada, which expires commencing in fiscal 2008. 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.

Reclassifications

Certain figures in the prior year's financial statements have been reclassified, including gross sales, net sales, cost of sales, amortization, selling costs and administration expense, interest income, cash and cash equivalents and restricted cash to provide more consistency and comparability to the industry standard and with the current year's presentation.

Under these reclassifications, gross sales are shown net of licensee discount, net sales are shown net of excise taxes and provincial mark-up and excludes licensee discount, cost of sales include production labour, freight and amortization on returnable containers, and exclude provincial mark-up, amortization excludes amortization on returnable containers, selling general and administration expense excludes production labour and term deposits pledged against lines of credit are shown as restricted cash. These reclassifications did not have any effect on the reported net loss, net loss per share or deficit of any prior period.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the year ended June 30, 2006, the reclassification reduced gross sales by \$189,730, reduced net sales by \$433,633, reduced cost of goods sold by \$264,385, reduced amortization by \$9,620 and reduced selling, general and administration expenses by \$96,391. Selling, general and administration expenses were also increased by \$4,761 and interest income increased by \$4,761. As at June 30, 2006, cash and cash equivalents were reduced by \$100,000 and restricted cash increased by \$100,000.

NOTE 3 – INVENTORY

	June 30, 2007	June 30, 2006
Finished goods and work-in-progress	\$ 22,869	\$ 25,092
Raw materials	13,879	4,744
Promotional materials	42,513	-
Returnable containers and small ware, net of amortization	253,519	158,274
	<u>\$ 332,780</u>	<u>\$ 188,110</u>

NOTE 4 – RESTRICTED CASH

	June 30, 2007	June 30, 2006
Term deposits	\$ 200,000	\$ 100,000
	<u>\$ 200,000</u>	<u>\$ 100,000</u>

\$100,000 (2006: \$100,000) of term deposits is security for a \$100,000 bank line of credit and \$100,000 (2006: \$nil) is security for capital leases.

NOTE 5 – CAPITAL ASSETS

	June 30, 2007		June 30, 2006	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computers	\$ 17,933	\$ 10,774	\$ 7,159	\$ 6,979
Equipment	812,418	215,719	596,699	321,588
Leasehold improvements	59,450	10,828	48,622	22,193
Office furniture and fixtures	13,226	3,712	9,514	7,529
Vehicles	419,322	179,847	239,475	185,365
Website	4,825	2,391	2,434	3,476
	<u>\$1,327,174</u>	<u>\$ 423,271</u>	<u>\$ 903,903</u>	<u>\$ 547,130</u>

Capital assets acquired under capital leases are included in equipment with a cost of \$257,721 (2006: \$nil) less accumulated depreciation of \$24,571 (2006:\$nil) and vehicles with a cost of \$419,322 (2006: \$288,250) less accumulated depreciation of \$179,847 (2006: \$102,885).

NOTE 6 – 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.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7 – 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, 2007 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, 2007	\$ 117,698
Current portion of long term debt	<u>(50,004)</u>
	<u>\$ 67,694</u>

Future principal repayments are as follows:

Fiscal year ending 2008	50,004
Fiscal year ending 2009	50,004
Fiscal year ending 2010	<u>17,690</u>
	<u>\$ 117,698</u>

NOTE 8 – 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 ending 2008	\$ 188,535
Fiscal years ending 2009	125,329
Fiscal years ending 2010	135,821
Fiscal years ending 2011	73,705
Fiscal years ending 2012	<u>11,635</u>
	535,025
Less amount representing interest ranging from 1% to 24%	<u>(100,425)</u>
Present value of net minimum lease payments	434,600
Less current portion of capital lease payments	<u>(142,806)</u>
	<u>\$ 291,794</u>

NOTE 9 – OTHER COMMITMENTS

The Company's future minimum annual lease payments for premises expires January, 2010 and are as follows:

	Operating Leases
Fiscal years ending 2008	\$ 71,318
Fiscal years ending 2009	71,318
Fiscal years ending 2010	<u>41,602</u>
	<u>\$ 184,238</u>

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 10 - SHARE CAPITAL

a) Authorized

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

b) Issued

	Common Shares		Value		Contributed Surplus
Issued at June 30, 2005	6,153,336	\$	254,050	\$	264,978
Shares issued in settlement of debt	395,667		101,362		-
Stock-based compensation	-		-		332,376
Cancellation of stock options	-		-		(348,072)
For cash:					
Private placement	2,109,466		504,578		-
Private placement	1,363,666		511,375		-
Issued at June 30, 2006	10,022,135	\$	1,371,365	\$	249,282
Stock-based compensation	-		-		357,200
Cancellation of stock options	-		-		(13,009)
Agent's warrants	-		(482,000)		482,000
Corporate finance fee shares	100,000		30,000		-
Non cash issue costs	-		(30,000)		-
For cash:					
Private placement	5,000,000		1,500,000		-
Share issue costs	-		(146,500)		-
Exercise of warrants	1,216,085		551,293		-
Issued at June 30, 2007	16,338,220	\$	2,794,158	\$	1,075,473

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

c) Escrow Shares

At June 30, 2007, 441,000 (2006: 882,000) common shares of the Company outstanding capital are held in escrow and will be released as follows:

Date of Release	Number of Shares Released
November 2, 2007	220,500
May 2, 2008	<u>220,500</u>
	<u>441,000</u>

On November 18, 2006, 220,500 escrow shares were released. On May 18, 2007, 220,500 escrow shares were released.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 10 - SHARE CAPITAL (CONTINUED)

d) Private Placement

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 \$1,358,500. 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 units, 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.

The fair value of the agent's warrants of \$482,000 was charged to share issue costs with an offsetting amount to contributed surplus. The fair value of the agent's warrants was determined using the Black Scholes model with the following assumptions; dividend yield of nil, expected volatility of 200%, risk-free rate of 4.06% and expected life of 2 years.

e) Share Purchase Warrants

At June 30, 2007, the following share purchase warrants were outstanding entitling the holders the right to purchase one common share for each warrant held:

Warrants	Weighted Average Exercise Price	Expiry Date
4,167,665	\$ 0.50	October 17, 2008
716,250	\$ 0.30	October 17, 2008
4,883,915	\$ 0.47	

NOTE 11 – 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 TSX Venture 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.

On October 20, 2006, the Company granted 760,000 stock options exercisable for a period of 5 years at a price of \$0.48 per share. During the year ended June 30, 2007, the Company cancelled 25,000 stock options exercisable at \$0.33 per share with an expiry date of April 13, 2011 and 10,000 stock options exercisable at \$0.48 per share with an expiry date of October 20, 2011.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 11 – STOCK OPTION PLAN (CONTINUED)

A summary of the status of the Company's stock option plan as of June 30, 2007 and June 30, 2006 and changes during the periods then ended is presented below:

	June 30, 2007		June 30, 2006	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning balance	750,000	\$ 0.33	885,000	\$ 0.58
Granted	760,000	0.48	1,000,000	0.33
Exercised	-	-	-	-
Forfeited/Cancelled	(35,000)	0.37	(1,135,000)	0.52
Outstanding, ending balance	1,475,000	\$ 0.41	750,000	\$ 0.33

At June 30, 2007, the following stock options are outstanding:

Exercise Price	Outstanding		Exercisable	
	Number	Weighted Average Remaining Life (in years)	Number	Weighted Average Remaining Life (in years)
\$0.33	725,000	3.79	725,000	3.79
\$0.48	750,000	4.31	750,000	4.31

The fair values of the options granted during the year ended June 30, 2007 and 2006 were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	June 30, 2007	June 30, 2006
Risk-free interest rate	4.07%	4.31%
Dividend yield	0%	0%
Expected stock price volatility	200%	120%
Expected life of options	5 years	5 years
Weighted average fair value per share	\$0.47	\$0.33

For the year ended June 30, 2007, the Company recognized stock based compensation in the amount of \$344,191 representing the issuance of 760,000 stock options at \$357,200, less the cancellation of 35,000 stock options at \$13,009.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 12 - DUE FROM/TO RELATED PARTIES

- a) At June 30, 2007, \$1,945 is due to (2006: \$17,437 due from) directors and former directors or companies controlled by them. The amounts owing at June 30, 2007 are unsecured, noninterest bearing and have no specific terms for repayment.
- b) During the year ended June 30, 2007 and 2006, the Company incurred the following charges with directors of the Company and relatives of directors:

	June 30, 2007	June 30, 2006
Compensation paid to relatives of directors	\$ 121,340	\$ 104,120
Consulting fees and salaries paid to directors	52,000	48,000
Management fees paid to directors	176,800	96,000
	\$ 350,140	\$ 248,120

The above 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, 2007, directors of the Company purchased 250,000 (2006: 685,000) common shares through private placements for \$75,000 (2006: \$85,500).

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The prior period adjustment of \$63,237 is to correct errors of recording sales and accounts receivable for the year ended June 30, 2006. The errors caused overstatements of sales of \$63,237 resulting in understatements of net loss of \$63,237 and deficit of \$63,237 for the year ended June 30, 2006, as well as overstatements of accounts receivable of \$63,237 as of June 30, 2006. The result was to increase the reported net loss per share from \$0.03 to \$0.04 for the year ended June 30, 2006. The deficit and accounts receivable as of June 30, 2006 and sales for the year ended June 30, 2006 have been restated in accordance with the recommendations of the Canadian Institute of Chartered Accountants with respect to Section 1506 "Accounting Changes" and "Prior Period Adjustments".

NOTE 14 – INCOME TAXES

The provision for (recovery of) income taxes differs from the amount that would have resulted in applying Canadian federal and provincial statutory tax rates as follows:

	30-Jun-07	30-Jun-06
Loss before income taxes	\$ 1,201,000	\$ 383,000
Statutory tax rate	34.12%	34.12%
Expected income tax recovery at statutory rates	\$ 410,000	\$ 131,000
Net adjustment for stock compensation	(117,000)	5,000
Non-capital losses expired	(4,000)	-
Non-deductible items for tax purposes	(6,000)	-
Other items not deducted for income tax	(50,000)	(47,000)
Unrecognized benefit of non-capital losses	(233,000)	(89,000)
Future income tax recovery	\$ -	\$ -

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 14 – INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to future income tax assets and liabilities are as follows:

	30-Jun-07	30-Jun-06
Future income tax assets:		
Non-capital losses carried forward	\$ 592,000	\$ 359,000
Tax value of capital assets in excess of book value	138,000	81,000
Tax value of cumulative eligible capital in excess of book value	-	-
Tax value of other assets in excess of book value	(4,000)	2,000
	726,000	442,000
Valuation allowance	(726,000)	(442,000)
Future income tax assets	\$ -	\$ -

Estimated tax asset for the year is \$nil. Based upon the level of historical taxable income, it cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets.

As at June 30, 2007, the Company has non-capital losses of approximately \$1,735,000 (2006: \$1,053,000) which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities and expiring as follows:

Fiscal years ending	2008	\$ 38,000
Fiscal years ending	2009	39,000
Fiscal years ending	2010	48,000
Fiscal years ending	2014	101,000
Fiscal years ending	2015	555,000
Fiscal years ending	2026	260,000
Fiscal years ending	2027	694,000
		\$1,735,000

NOTE 15 – SUBSEQUENT EVENTS

a) The Company entered into a letter of intent with Fort Garry Brewing Company Ltd. ("Fort Garry") dated May 25, 2007 to purchase all of the common shares of Fort Garry through a Plan of Amalgamation. Holders of common shares in Fort Garry were to have the option to receive either (a) one common share of the Company ("Russell shares") or (b) one – half of one Russell share plus \$0.20 cash; or (c) \$0.40 cash. In addition, the Company is to purchase the 4% cumulative Preferred shares of Fort Garry for their par value plus any accrued redemption premium and accrued dividends. Pursuant to the Letter of Intent, the Company also advanced Fort Garry a \$75,000 deposit, which is refundable as the Company decided to proceed with the Fort Garry transaction.

On July 27, 2007, the Company completed a Definitive Agreement with Fort Garry Brewing Company Ltd. ("Fort Garry"), to purchase the shares of Fort Garry through a Plan of Amalgamation. On October 19, 2007 the shareholders of Fort Garry voted in favour of the amalgamation.

On October 22, 2007 the Company completed the amalgamation with Fort Garry. To complete the transaction the Company paid \$12,343 to those Fort Garry shareholders who tendered 30,857 shares for cash; \$415,667 and 742,262 Russell shares to those shareholders who tendered 1,484,521 Fort Garry shares for cash and shares; and 3,461,306 Russell shares to those remaining Fort Garry shareholders who tendered their Fort Garry shares or who did not tender their shares and whose shares are automatically exchanged for Russell shares. In addition, the Company paid \$953,726 to purchase the 4% cumulative Preferred shares of Fort Garry including their par value and accrued redemption premium and accrued dividends.

The transaction has received approval of the TSX Venture Exchange and the shares of Fort Garry were de-listed effective October 22, 2007.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 15 – SUBSEQUENT EVENTS (CONTINUED)

b) On July 27, 2007, the Company completed a \$3,176,500 brokered private placement. The Company issued 5,294,166 Units at a price of \$0.60 per Unit, with each Unit consisting of one common share and one non-transferable common share purchase Warrant. Each whole Warrant entitles the holder to purchase one additional share of the Company at a price of \$0.75 per share for a period of one year 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 \$1.00 for 15 consecutive days, the Company may give notice that the Warrants will expire 30 days from the date of providing such notice. The proceeds were used for the acquisition of Fort Garry, capital equipment and for general working capital.

The Agents received a cash commission of \$245,782 and 13,896 units (for a total of 8% of the gross proceeds of the Offering). In addition, the Agents were granted 529,417 agent's warrants (the "Agent's Warrant") exercisable for a period of one year from the date of closing of the Offering. Each Agent's Warrant is exercisable into one (1) common share of the Company at \$0.60 per share and will also be subject to early expiry conditions. In addition, the Agents were paid an administrative fee of \$5,000, a Corporate Finance Fee of 50,000 units, and were reimbursed for all reasonable expenses related to the Offering. All shares issued in connection with the offering are subject to a four month hold period.

c) On August 29, 2007, the Company granted, subject to TSX Venture Exchange approval, incentive stock options in the aggregate of 690,000 common shares to certain directors, officers and consultants, each at a price of \$0.55 per common share for a period of five years pursuant to the Company's Stock Option Plan.

d) In October, 2007, the Company issued 650,300 common shares pursuant to the exercise of 650,300 agent's warrants expiring October 17, 2008 at \$0.30 per share for proceeds of \$195,090.