

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

NOTICE OF NO AUDITOR'S REVIEW OF INTERIM FINANCIAL STATEMENTS

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
September 30, 2005
(Prepared by Management)

PREPARED AS OF November 28, 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 September 30, 2005, Russell Breweries Inc., on a consolidated basis, held assets of \$944,917 including cash of \$130,398, accounts receivable of \$157,675, inventory recorded at \$133,720 and property, plant and equipment recorded at \$487,609. At the same date, the Company had liabilities totaling \$578,954, including a \$88,258 demand bank loan, accounts payable and accrued liabilities of \$156,636 and long term debt of \$256,647 relating to capital leases and a bank loan.

Russell Breweries Inc. recorded sales of \$ 316,909 for the three month period ending September 30, 2005 compared to \$131,390 for the three month period ending September 30, 2004, a comparable increase of 141%. The Company recorded a net loss of \$46,505 for the three month period ended September 30, 2005 as compared to a loss of \$19,064 for the same three month period in 2004. Cost of goods for the three month period ending September 30, 2005 was \$126,361 compared to \$62,204 for the period ending September 30, 2004. During the fiscal period ended September 30, 2005, the Company incurred selling, general and administrative expenses of \$198,493 compared to \$ 77,682 for the comparative period in 2004. In addition, the Company recorded amortization costs of \$34,039 and interest on long term debt of \$4,521 for the three month period ended September 30, 2005.

Details of expenses for the comparative periods are shown below:

	Three month period ended Sept 30, 2005	Three month period ended Sept 30, 2004
Advertising	\$495	\$0
Automotive	19,288	9636
Couriers	18	210
Bank Charges	4,640	1,114
Insurance	950	733

Interest on bank loan	1,845	-
Licenses	523	275
Miscellaneous Office	40	268
Office Supplies	987	398
Postage	110	177
Repairs and Maintenance	2,918	1,633
Small ware	119	678
Supplies	-	152
Labor	89,953	34,152
Management fees	7,500	-
Professional fees	9,225	5,470
Promotion	42,070	8,331
Rent and utilities	13,573	8,801
Telephone	2,602	-
Transfer agent and filing fees	1,637	5,654
Total	<u>\$198,493</u>	<u>\$77,682</u>

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:

	1st Qtr. ended 9-30-05	4th Qtr. ended 6-30-05	3rd Qtr. ended 3-31-05	2nd Qtr. ended 12-31-04	1st Qtr. ended 9-30-04	4th Qtr. ended 6-30-04	3rd Qtr. ended 3-31-04	2nd Qtr. ended 12-31-03
Total Revenues	\$316,909	\$313,815	\$185,511	\$146,338	\$131,390	\$123,078	\$37,930	Nil
Operating Loss	(\$46,505)	(\$431,197)	(\$106,794)	(\$67,765)	(\$19,064)	(\$63,024)	(\$53,226)	(\$11,372)
Operating Loss Per Share	(\$0.01)	(\$0.07)	(\$0.02)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.00)
Total Net Loss	\$46,505	(\$431,197)	(\$106,794)	(\$67,765)	(\$19,064)	(\$63,024)	(\$53,226)	(\$11,372)
Total Net Loss Per Share	(\$0.01)	(\$0.07)	(\$0.02)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.01)	(\$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 three month period ended September 30, 2005, the Company realized revenue of \$316,909 through the sale of its beer products. However, due to cost of sales of \$126,361 and operating expenses of \$198,493, the Company incurred a net loss of \$46,505 for the period. Ongoing operations are funded from cash on hand (\$130,398 at September 30, 2005) and from private placements of the Company's common shares. In addition, Russell Breweries Inc. had accounts receivable at September 30, 2005 of \$157,675, which it reasonably expects to collect.

At September 30, 2005, the Company had cash on hand of \$130,398, which covers administrative expenses for approximately three 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. In June 2005, the Company announced a 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 September 30, 2005, the Company had received a total of \$211,375 of these proceeds. As of November 26, 2005, the Company had received a total of \$512,375. The private placement is subject to CNQ Stock Exchange acceptance for filing.

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 from January 2005 in the amount of \$4,167 per month.

- 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 11 to the Company's financial statements for the period ended September 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 three month period ended September 30, 2005, the Company paid or accrued management fees of \$7,500 to Andrew Harris, salary of \$12,000 to John Morgan, salary of \$9,000 to Mark Russell (a former director of the Company) and total compensation for services to Brian Harris and various relatives of Brian Harris and Andrew Harris of \$22,825. Brian Harris and Andrew Harris are father and son.

SHARE DATA

As of the date of this management discussion, Russell Breweries Inc. has 8,658,469 common shares without par value issued and outstanding. In June 2005, the Company announced a 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 September 30, 2005, the Company had received a total of \$211,375 of these proceeds. As of November 26, 2005, the Company had received a total of \$512,375. 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. See Note 4 on September 30, 2005 Financial Statements for further details.

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 Russell Breweries Inc. is located at www.sedar.com and www.russellbeer.com.

RUSSELL BREWERIES INC

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

**RUSSELL BREWERIES INC.
CONSOLIDATED BALANCE SHEETS**

September 30,
2005

June 30,
2005

ASSETS

CURRENT

Cash	\$ 130,398	\$ 84,045
Accounts receivable	157,675	118,751
Due from related parties (Note 5)	51,568	51,560
Inventory (Note 6)	133,720	148,548
Prepaid expenses and deposits	25,429	19,206

PROPERTY, PLANT AND EQUIPMENT (Note 7)	498,790	422,110
TRADEMARKS	487,609	512,699
DEFERRED COSTS	1,800	1,800
	6,718	8,213

	\$ 994,917	\$ 944,822
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LIABILITIES

CURRENT

Demand bank loan (Note 8)	\$ 88,258	\$ 97,476
Accounts payable and accrued liabilities	156,636	144,783
Current portion of long-term debt (Note 9)	50,004	50,004
Current portion of obligations under capital leases (Note 10)	27,409	27,478

	322,307	319,741
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LONG TERM DEBT (Note 10)	155,236	167,737
OBLIGATIONS UNDER CAPITAL LEASES (Note 11)	101,411	106,126
	256,647	273,863

	578,954	593,604
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SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 3)	859,990	859,990
SHARE SUBSCRIPTIONS (Note 3 and 12)	211,375	100,125
CONTRIBUTED SURPLUS (Note 4)	264,978	264,978
DEFICIT	(920,380)	(873,875)

	415,963	351,218
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	\$ 994,917	\$ 944,822
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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**

	Three months ended Sept. 30, 2005	Three months ended Sept. 30, 2004
SALES	\$ 316,909	\$ 131,390
COST OF SALES	126,361	62,204
	190,548	69,186
EXPENSES		
Amortization	34,039	7,553
Interest on long term debt	4,521	3,015
Selling, general and administrative	198,493	77,682
	237,053	88,250
NET LOSS FOR THE PERIOD	46,505	19,064
DEFICIT, BEGINNING OF PERIOD	873,875	249,055
DEFICIT, END OF PERIOD	\$ 920,380	\$ 268,119
LOSS PER SHARE – Basic and diluted	(\$.005)	(\$.002)
Weighted average number of shares outstanding	8,658,469	6,973,336

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

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

	Three months ended Sept 30, 2005	Three months ended Sept. 30, 2004
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CASH FLOWS PROVIDED BY (USED FOR):

OPERATING ACTIVITIES

Net loss for the three month period	\$ (46,505)	\$ (19,064)
Adjusted for non-cash items:		
Amortization	34,039	7,553
	(12,466)	(11,511)
Net changes in non-cash working capital items:		
Accounts receivable	(38,924)	(3,531)
Prepaid expenses and deposits	(6,223)	(10,258)
Inventory	14,828	(342)
Demand bank loan	(9,218)	(8,838)
Accounts payable and accrued liabilities	11,853	(25,787)
Advances payable	-	113,013
Due to and from related parties	(8)	(23,434)
	(27,692)	40,823

INVESTING ACTIVITIES

Purchase of property and equipment	(7,454)	(19,292)
Payments of Long Term Debts	(12,501)	-
Payments of Capital Leases	(4,784)	6,103
	(24,739)	(13,189)

FINANCING ACTIVITIES

Bank loan, net of repayments	-	47,260
Share subscriptions	111,250	-
	111,250	47,260

(DECREASE) INCREASE IN CASH

46,353

63,383

CASH, BEGINNING OF YEAR

84,045

9,055

CASH, END OF PERIOD

\$ 130,398

\$ 72,438

Supplemental Cash Flow Information

Interest paid	\$ 4,520	\$ 3,015
Income taxes paid	\$ -	\$ -

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

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 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. 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 September 30, 2005, the Company has working capital of \$176,483 (September 30, 2004 deficiency - \$192,836) and has accumulated losses from inception of \$920,380. 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
SEPTEMBER 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 \$381,575 (September 30, 2004 - \$159,426) 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 \$655,000 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
SEPTEMBER 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 September 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
May 2, 2007	220,500
November 2, 2007	220,500
May 2, 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 September 30, 2005, the company had received a total of \$211,375 in subscriptions.

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

NOTE 5 - DUE FROM/TO RELATED PARTIES

- a) At September 30, 2005 directors of the Company were indebted to the Company for \$51,568 from cash advances. During the three months ended September 30, 2004, former and current directors of Russell Brewing Company Ltd., were indebted to the Company for \$33,102. These amounts are unsecured, non-interest bearing and have no specific terms of repayment.
- b) During the three months ended September 30, 2004, former and current directors provided cash advances of \$20,914 for working capital purposes. These advances are unsecured, non-interest bearing and have no specific terms of repayment.
- c) During the three months ended September 30, 2005, directors of the Company received management fees of \$7,500 (2004 - nil), During the three months ended September 30, 2005, relatives of directors received compensation from the Company in the amount of \$22,825. (2004-nil) These transactions were recorded at exchange value, which was the amount of consideration established and agreed to by the related parties.

NOTE 6 – INVENTORY

	September 30, 2005	September 30, 2004
Finished goods and work-in-progress	\$17,141	\$4,690
Raw materials	12,240	2,239
Returnable containers and small ware, net of amortization	128,294	18,952
	\$157,675	\$25,881

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	Sept 30, 2005		Sept 30, 2004	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computers	\$ 13,146	\$ 6,940	\$ 6,206	\$ 1,387
Equipment	371,537	81,288	290,249	189,791
Leasehold improvements	3,718	1,146	2,572	2,890
Office furniture and fixtures	9,827	1,075	8,752	955
Vehicles	234,151	56,247	177,904	39,811
Website	2,450	524	1,926	-
	\$ 634,829	\$ 147,220	\$ 487,609	\$ 234,834

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.

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

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, 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 September 30, 2005		\$205,240
Current portion of long term debt		(50,004)
		\$155,236
Future principal repayments are as follows:		
	fiscal year ending 2006	\$37,503
	fiscal year ending 2007	50,004
	fiscal year ending 2008	50,004
	fiscal year ending 2009	50,004
	fiscal year ending 2010	17,725
		\$205,240

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:		
2006		\$39,105
2007		35,039
2008		72,747
2009		11,996
2010		11,996
		170,883
Less amount representing interest ranging from 1% to 13%		(42,063)
Present value of net minimum lease payments		128,820
Less current portion of capital lease payments		(27,409)
		\$101,411

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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.

Fiscal years ended:	Operating <u>Leases</u>
2006	\$24,031
2007	31,892
2008	<u>7,981</u>
	<u><u>\$63,904</u></u>

NOTE 12 – 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 September 30, 2005, the Company had received a total of \$211,375 in subscriptions.