

RUSSELL BREWERIES INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006 and 2005
(Prepared by Management)

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.
MANAGEMENT DISCUSSION
September 30, 2006
(Prepared by Management)**

PREPARED AS OF November 18, 2006

**Contact Information
Russell Breweries Inc.
13018 80 Avenue
Surrey, BC V3W 3B2
Telephone: (604) 599-1190
Facsimile: (604) 599-1048
Contact Name: Brian Harris**

For the three months ended September 30, 2006, Russell Breweries Inc. ("the Company") has prepared this management discussion following the requirements of a National Instrument 51-102 ("NI-51-102"). NI 51-102 outlines more detailed and comprehensive requirements for management discussion and analysis. This Management Discussion and Analysis of the results of operations as of November 18, 2006 provides information on the operations of the Company for three months ended September 30, 2006 and subsequent to the period end and should be read in conjunction with the audited financial statements and accompanying notes for the years ended June 30, 2006 and 2005.

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, 2006, Russell Breweries Inc., on a consolidated basis, held assets of \$950,842 including term deposits of \$101,318, accounts receivable of \$114,097, inventory recorded at \$185,426 and property, plant and equipment recorded at \$523,828. At the same date, the Company had liabilities totaling \$656,642, including bank indebtedness of \$89,223, a \$52,392 demand bank loan, accounts payable and accrued liabilities of \$212,625 and long term debt of \$222,348 relating to capital leases and a bank loan.

Sales for the three months ended September 30, 2006 were \$391,621 up 24% compared to \$316,909 for the three months ended September 30, 2005. The gross profit was \$264,173 up 39% compared to \$190,548 for the same period of last year. Net loss for the three months ended September 30, 2006, was \$133,301 or \$0.013 per share compared to the net loss of \$46,505 or \$0.005 per share (186.64% increase) for the comparable period in 2005. The increase of \$86,796 in net loss was primarily due to an increase of \$44,660 in labour, \$45,902 in advertising and promotion, \$16,500 in management fees, \$15,455 in office expense, \$14,374 in telephone, \$1,996 in amortization, \$4,215 in interest on long-term debt, \$7,703 in automotive, \$2,067 in repairs and maintenance, \$1,110 in smallware, \$3,900 in rent and utilities, \$4,921 in transfer agent and filing fees, which was offset by an increase of \$73,625 in gross profit and a decrease of \$2,255 in professional fees.

Labour is 50% higher comparing to the same period of last year, which corresponds with the increase in sales. The Increase in advertising and promotion, automotive, office, repairs and maintenance, rent and utilities also directly corresponds to the growth in the sales of Russell's beers and the expansion of the Company's business operations.

The following table identifies the changes in selling, general and administrative expenses for the three months ended September 30, 2006 and 2005, and the last three fiscal years ended June 30, 2006 and 2005:

	+/-*	Three Months Ended 30-Sep-06	Three Months Ended 30-Sep-05	+/-*	Year Ended 30-Jun-06	Year Ended 30-Jun-05
	%	\$	\$	%	\$	\$
		Unaudited	Unaudited		Audited	Audited
Advertising and promotion	107.84	88,467	42,565	27.63	188,427	147,637
Automotive	39.94	26,991	19,288	50.25	84,722	56,389
Insurance	28.21	1,218	950	(43.69)	2,029	3,603
Interest on bank loan	(21.41)	1,450	1,845	(21.82)	6,464	8,268
Office expense	244.62	21,773	6,318	28.07	32,250	25,182
Repairs and maintenance	70.84	4,985	2,918	25.49	14,076	11,217
Smallware	932.77	1,229	119	27.53	5,124	4,018
Labour	49.65	134,613	89,953	70.86	417,459	244,331
Management fees	220.00	24,000	7,500	326.67	96,000	22,500
Professional fees	(24.44)	6,970	9,225	(31.20)	85,686	124,552
Rent and utilities	28.73	17,473	13,573	56.10	66,220	42,421
Stock based compen	N/A	-	-	(105.92)	(15,696)	264,978
Telephone	552.42	16,976	2,602	128.00	19,471	8,540
Transfer agent and filing fees	300.61	6,558	1,637	(46.75)	11,453	21,507
Amortization	5.86	36,035	34,039	107.80	155,443	74,804
Interest on long-term debt	93.23	8,736	4,521	76.81	17,769	10,050

* +/- expresses increase/decrease in % compared to prior periods or years.

SELECTED ANNUAL INFORMATION

The following table presents selected financial information for the three months ended September 30, 2006 and 2005, and the last three fiscal years ended June 30, 2006, 2005 and 2004:

	Three Months Ended 30-Sep-06	Three Months Ended 30-Sep-05	Year Ended 30-Jun-06	Year Ended 30-Jun-05	Year Ended 30-Jun-04
	Unaudited	Unaudited	Audited	Audited	Audited
	\$	\$	\$	\$	\$
Revenue	391,621	316,909	1,363,621	777,054	161,008
Total income (loss) from continuing operations	(133,301)	(46,505)	(319,271)	(624,820)	(132,871)
Operating income (loss) per share	(0.013)	(0.005)	(0.03)	(0.10)	(0.08)
Net income (loss)	(133,301)	(46,505)	(319,271)	(624,820)	(132,871)
Basic and diluted earning (loss) per share	(0.013)	(0.005)	(0.03)	(0.10)	(0.08)
Total assets	950,842	994,917	1,081,673	944,822	334,064
Total long term financial liabilities	222,348	256,647	242,562	273,863	9,743
Cash dividends declared per share	Nil	Nil	Nil	Nil	Nil

The increase in total revenue in the three months ended September 30, 2006, is due to the expansion of the Company's business operations. For the same reason, the net loss was substantially increased as mentioned above in the discussion of the results of operations.

SUMMARY OF QUARTERLY RESULTS

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

Fiscal Year	2007	2006	2006	2006	2006	2005	2005	2005
Quarter	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	391,621	400,330	272,818	346,564	316,909	313,815	185,511	146,338
Operating loss	(133,301)	(101,356)	(122,698)	(48,712)	(46,505)	(431,197)	(106,794)	(67,765)
Operating loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.10)	(0.07)	(0.04)
Total net loss	(133,301)	(101,356)	(122,698)	(48,712)	(46,505)	(431,197)	(106,794)	(67,765)
Total net loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.10)	(0.07)	(0.04)

LIQUIDITY

Russell Breweries Inc. generates revenue through the distribution of beer produced by its wholly owned subsidiary, Russell Brewing Company Ltd. In the three months ended September 30, 2006, the Company realized revenue of \$391,621 through the sale of its beer products. However, due to cost of sales of \$127,448 and operating expenses of \$397,474, the Company incurred a net loss of \$133,301 for the same period.

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 September 30, 2006 of \$113,995, 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 three months ended September 30, 2006, the Company paid or accrued management fees of \$24,000 to Brian Harris and Andrew Harris, a salary of \$12,000 to John Morgan, and total compensation for services to various relatives of Brian Harris and Andrew Harris of \$23,587. 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 and Note 12 on June 30, 2006 and September 30, 2006 Financial Statements for further details. As mentioned above in the liquidity discussion, on October 17, 2006, the Company closed a brokered private placement of 5,100,000 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.

RUSSELL BREWERIES INC.

September 30, 2006

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 accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

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

RUSSELL BREWERIES INC.
INTERIM CONSOLIDATED BALANCE SHEETS
(Prepared by Management)

	(Unaudited) <u>30-Sep-06</u>	(Audited) <u>30-Jun-06</u>
ASSETS		
CURRENT		
Term deposits	\$ 101,318	\$ 101,318
Accounts receivables	114,097	203,403
Due from related parties (Note 5)	6,403	17,437
Inventory (Note 6)	185,426	188,110
Prepaid expenses and deposits	<u>17,233</u>	<u>20,243</u>
	424,477	530,511
PROPERTY, PLANT AND EQUIPMENT (Note 7)	523,828	547,130
TRADEMARKS	1,800	1,800
DEFERRED COSTS	<u>737</u>	<u>2,232</u>
	<u>\$ 950,842</u>	<u>\$ 1,081,673</u>
 LIABILITIES		
CURRENT		
Bank indebtedness	\$ 89,223	\$ 135,439
Demand bank loan (Note 8)	52,392	63,546
Accounts payable and accrued liabilities	212,625	132,761
Current portion of long-term debt (Note 9)	50,004	50,004
Current portion of obligations under capital leases (Note 10)	<u>30,050</u>	<u>29,860</u>
	434,294	411,610
LONG TERM DEBT (Note 9)	109,399	121,900
OBLIGATIONS UNDER CAPITAL LEASES (Note 10)	<u>112,949</u>	<u>120,662</u>
	<u>656,642</u>	<u>654,172</u>
 SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL (Note 3)	1,371,365	1,371,365
CONTRIBUTED SURPLUS	249,282	249,282
DEFICIT	<u>(1,326,447)</u>	<u>(1,193,146)</u>
	<u>294,200</u>	<u>427,501</u>
	<u>\$ 950,842</u>	<u>\$ 1,081,673</u>

APPROVED BY THE DIRECTORS:

/s/ Andrew Harris, Director

/s/ Brian Harris, Director

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

RUSSELL BREWERIES INC.
INTERIM CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
For the three months ended September 30, 2006 and 2005
(Unaudited - Prepared by Management)

	Three months ended	
	<u>30-Sep-06</u>	<u>30-Sep-05</u>
SALES	\$ 391,621	\$ 316,909
COST OF SALES	<u>127,448</u>	<u>126,361</u>
	<u>264,173</u>	<u>190,548</u>
EXPENSES		
Amortization	36,035	34,039
Interest on long-term debt	8,736	4,521
Advertising and promotion	88,467	42,565
Automotive	26,991	19,288
Insurance	1,218	950
Interest on bank loan	1,450	1,845
Office expense	21,773	6,318
Repairs and maintenance	4,985	2,918
Smallware	1,229	119
Labour	134,613	89,953
Management fees	24,000	7,500
Professional fees	6,970	9,225
Rent and utilities	17,473	13,573
Stock based compensation (recovery)	-	
Telephone	16,976	2,602
Transfer agent and filing fees	<u>6,558</u>	<u>1,637</u>
	<u>397,474</u>	<u>237,053</u>
NET LOSS FOR THE PERIOD	133,301	46,505
Deficit, beginning of the period	<u>1,193,146</u>	<u>873,875</u>
Deficit, end of the period	<u>\$ 1,326,447</u>	<u>\$ 920,380</u>
Basic and diluted loss per share	<u>\$ 0.013</u>	<u>\$ 0.005</u>
Weighted average number of shares outstanding	<u>10,022,135</u>	<u>8,658,469</u>

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

RUSSELL BREWERIES INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended September 30, 2006 and 2005
(Unaudited - Prepared by Management)

CASH FLOWS PROVIDED BY (USED FOR):	Three months ended	
	<u>30-Sep-06</u>	<u>30-Sep-05</u>
OPERATING ACTIVITIES		
Net loss for the period	\$ (133,301)	\$ (46,505)
Adjusted for non-cash items:		
Amortization	36,035	34,039
	<u>(97,266)</u>	<u>(12,466)</u>
Changes in non-cash working capital items:		
Accounts receivable	89,306	(38,924)
Prepaid expenses and deposits	3,010	(6,223)
Inventory	(1,941)	14,828
Accounts payable and accrued liabilities	79,864	11,853
Due to and from related parties	11,034	(8)
	<u>84,007</u>	<u>(30,940)</u>
INVESTING ACTIVITIES		
Deferred costs	-	1,495
Purchase of property and equipment	(6,613)	(8,949)
	<u>(6,613)</u>	<u>(7,454)</u>
FINANCING ACTIVITIES		
Capital lease, net of repayments	(7,523)	(4,784)
Bank loan, net of repayments	(12,501)	(12,501)
Demand loan repayments	(11,154)	(9,218)
Share capital issued for cash	-	-
Share subscriptions	-	111,250
	<u>(31,178)</u>	<u>84,747</u>
Increase (decrease) in cash during the period	46,216	46,353
Cash, beginning of period	(34,121)	84,045
Cash and term deposits, end of period	<u>\$ 12,095</u>	<u>\$ 130,398</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ 8,736</u>	<u>\$ 4,520</u>
Income Taxes	<u>\$ -</u>	<u>\$ -</u>

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

RUSSELL BREWERIES INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

(Prepared by Management)

Note 1 Interim Financial Statements

While the information presented in these interim consolidated financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim period presented. These interim financial statements follow the same accounting policies and methods of their application as the Company's June 30, 2006 financial statements. It is suggested that these interim financial statements be read in conjunction with the Company's annual June 30, 2006 audited financial statements.

Note 2 Significant Accounting Policies

a) Principles 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.

b) 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 September 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.

c) 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.

d) 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.

e) 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 THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Note 2 Significant Accounting Policies – (cont'd)

f) 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 \$449,513 (2005: \$381,575) less applicable duties and fees levied by the applicable provincial liquor board.

g) 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.

h) 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.

i) 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.

j) 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.

k) 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 THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Note 3 Share Capitala) Authorized

400,000,000 common shares, without par value

b) Issued

	30-Sep-06		30-Sep-05	
	Shares	Amount	Shares	Amount
Balance, beginning	10,022,135	\$ 1,371,365	1,538,334	\$ 254,050
Forward split (4:1)			4,615,002	-
For debt	-	-	395,667	101,362
For cash:				
Private placement	-	-	2,109,466	504,578
Share issue costs	-	-	-	-
Balance, ending	<u>10,022,135</u>	<u>\$ 1,371,365</u>	<u>8,658,469</u>	<u>\$ 859,990</u>

c) Escrow Shares

At September 30, 2006, 882,000 (2005: 1,102,500) 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	Shares
November 2, 2006	220,500
May 2, 2007	220,500
November 2, 2007	220,500
May 2, 2008	220,500
	<u>882,000</u>

d) Private Placement

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.

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.

e) Share Purchase Warrants

At September 30, 2006, the following share purchase warrants were outstanding entitling the holders the right to purchase one common share for each warrant held:

Warrants	Exercise Price	Expiry Date
Nil	N/A	N/A

RUSSELL BREWERIES INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 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 status of the Company's stock option plan as of September 30, 2006 and September 30, 2005 and changes during the periods then ended is presented below:

	30-Sep-06		30-Sep-05	
	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	-	-	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	-	-
Outstanding, ending balance	750,000	\$ 0.33	885,000	\$ 0.58

At September 30, 2006, 750,000 share purchase options were outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

Options	Exercise Price	Expiry Date
750,000	\$ 0.33	13-Apr-01

The fair values of the options granted during the years ended June 30, 2006 and 2005 were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average

	2006	2005
Risk-free interest rate	4.31%	3.60%
Dividend yield	0%	0%
Expected stock price volatility	120%	95%
Expected life of options	5 years	2 years
Weighted average fair value per share	\$0.33	\$0.30

For the year ended June 30, 2006, the Company recognized stock based compensation, a 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).

RUSSELL BREWERIES INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Note 5 Due from/to Related Parties

a) At September 30, 2006, directors of the Company were indebted to the Company for \$6,403 (2005: \$51,568) from cash advances. These amounts are unsecured, non-interest bearing and have no specific terms of repayment.

b) During the three months ended September 30, 2006 and 2005, the Company incurred the following charges with directors of the Company and relatives of directors:

	<u>30-Sep-06</u>	<u>30-Sep-05</u>
Compensation paid to relatives of directors	\$ 23,587	\$ 22,825
Consulting fees and salaries paid to directors	12,000	-
Management fees paid to directors	24,000	7,500
	<u>\$ 59,587</u>	<u>\$ 30,325</u>

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, 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

	<u>30-Sep-06</u>	<u>30-Sep-05</u>
Finished goods and work-in-progress	\$ 25,092	\$ 17,141
Raw materials	4,744	12,240
Returnable containers and small ware, net of amortization	155,590	128,294
	<u>\$ 185,426</u>	<u>\$ 157,675</u>

Note 7 Property, Plant and Equipment

	<u>30-Sep-06</u>			<u>30-Sep-05</u>
	Cost	Acc. Depr.	Net	Net
Computers	\$ 16,117	\$ 9,176	\$ 6,941	\$ 6,206
Equipment	461,196	148,689	312,507	290,249
Leasehold improvements	25,455	3,786	21,669	2,572
Office furniture and fixtures	9,827	2,637	7,190	8,752
Vehicles	288,250	115,945	172,305	177,904
Website	4,825	1,609	3,216	1,926
	<u>\$ 805,670</u>	<u>\$ 281,842</u>	<u>\$ 523,828</u>	<u>\$ 487,609</u>

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 THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

Note 9 Long Term Debt

In July 2004, the Company obtained a Canadian government guaranteed bank loan from Scotia Bank in the amount of \$250,000. To September 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.

	Principal Amount
Loan amount as at September 30, 2006	\$ 159,403
Current portion of long term debt	<u>(50,004)</u>
	<u>\$ 109,399</u>
Future principal repayments are as follows:	
fiscal year ending 2007	\$ 37,503
fiscal year ending 2008	50,004
fiscal year ending 2009	50,004
fiscal year ending 2010	21,892
	<u>\$ 159,403</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.

	Capital Leases
Fiscal years ending 2007	\$ 36,221
Fiscal years ending 2008	89,928
Fiscal years ending 2009	25,179
Fiscal years ending 2010	24,396
Fiscal years ending 2011	<u>1,000</u>
	176,724
Less amount representing interest ranging from 1% to 13%	<u>(33,725)</u>
Present value of net minimum lease payments	142,999
Less current portion of capital lease payments	<u>(30,050)</u>
	<u>\$ 112,949</u>

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.

	Operation Leases
Fiscal year ending 2007	\$ 11,041

RUSSELL BREWERIES INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

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.