

RUSSELL BREWERIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(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.
(Formerly New Market Ventures Inc.)
MANAGEMENT DISCUSSION
December 31, 2005
(Prepared by Management)

PREPARED AS OF February 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 December 31, 2005, Russell Breweries Inc., on a consolidated basis, held assets of \$1,296,277 including term deposits of \$380,000, accounts receivable of \$185,989, inventory recorded at \$156,870 and property, plant and equipment recorded at \$477,308. At the same date, the Company had liabilities totaling \$628,976, including bank indebtedness of \$123,707, a \$79,300 demand bank loan, accounts payable and accrued liabilities of \$109,929 and long term debt of \$239,385 relating to capital leases and a bank loan.

Russell Breweries Inc. recorded sales of \$663,473 for the six month period ending December 31, 2005 compared to \$277,728 for the six month period ending December 31, 2004, a comparable increase of 139%. The Company recorded a net loss of \$95,217 for the six month period ended December 31, 2005 as compared to a loss of \$86,829 for the same six month period in 2004. Cost of goods for the six month period ending December 31, 2005 was \$248,213 compared to \$128,403 for the period ending December 31, 2004. During the fiscal period ended December 31, 2005, the Company incurred selling, general and administrative expenses of \$430,787 compared to \$218,623 for the comparative period in 2004. In addition, the Company recorded amortization costs of \$67,637 and interest on long term debt of \$9,062 for the six month period ended December 31, 2005.

Details of expenses for the comparative periods are shown below:

	Six month period ended Dec 31, 2005	Six month period ended Dec 31, 2004
Advertising and promotion	\$89,753	\$37,028
Automotive	33,669	23,344
Insurance	1,899	1,495
Interest on bank loan	3,488	4,366
Office	14,414	6,508

Repairs and Maintenance	4,952	5,826
Small ware	3,426	3,120
Labor	189,374	77,118
Management fees	23,000	7,500
Professional fees	20,920	23,270
Rent and utilities	26,641	17,457
Telephone	6,139	4,033
Transfer agent and filing fees	13,112	7,558
Total	<u>\$430,787</u>	<u>\$218,623</u>

SUMMARY OF QUARTERLY RESULTS

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

	2nd Qtr. ended 12-31-05	1st Qtr. ended 9-30-05	4 th Qtr. ended 6-30-05	3 rd Qtr. ended 3-31-05	2 nd Qtr. ended 12-31-04	1 st Qtr. ended 9-30-04	4 th Qtr. ended 6-30-04	3 rd Qtr. ended 3-31-04
Total Revenues	\$346,564	\$316,909	\$313,815	\$185,511	\$146,338	\$131,390	\$123,078	\$37,930
Operating Loss	(\$48,712)	(\$46,505)	(\$431,197)	(\$106,794)	(\$67,765)	(\$19,064)	(\$63,024)	(\$53,226)
Operating Loss Per Share	(\$0.01)	(\$0.01)	(\$0.07)	(\$0.02)	(\$0.04)	(\$0.00)	(\$0.01)	(\$0.01)
Total Net Loss	(\$48,712)	(\$46,505)	(\$431,197)	(\$106,794)	(\$67,765)	(\$19,064)	(\$63,024)	(\$53,226)
Total Net Loss Per Share	(\$0.01)	(\$0.01)	(\$0.07)	(\$0.02)	(\$0.04)	(\$0.00)	(\$0.01)	(\$0.01)

LIQUIDITY

Russell Breweries Inc. generates revenue through the distribution of beer produced by its wholly owned subsidiary, Russell Brewing Company Ltd. In the six month period ended December 31, 2005, the Company realized revenue of \$663,473 through the sale of its beer products. However, due to cost of sales of \$248,213 and operating expenses of \$430,787, the Company incurred a net loss of \$95,217 for the period. Ongoing operations are funded from a net cash balance from term deposits and bank indebtedness (\$256,293 at December 1, 2005 consisting of \$380,000 and (\$123,707) respectively) and from private placements of the Company's common shares. In addition, Russell Breweries Inc. had accounts receivable at December 31, 2005 of \$185,989, which it reasonably expects to collect.

At December 31, 2005, the Company had working capital of \$422,275. 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 December 31, 2005, the Company had received a total of \$511,375 of these proceeds.

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 December 31, 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 six month period ended December 31, 2005, the Company paid or accrued management fees of \$15,000 to Andrew Harris and \$8,000 to Brian Harris, salary of \$12,000 to John Morgan, salary of \$15,000 to Mark Russell (a former director of the Company) and total compensation for services to various relatives of Brian Harris and Andrew Harris of \$34,200. 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 December 31, 2005, the Company had received a total of \$511,375 of these proceeds.

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. See Note 4 on December 31, 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
(Prepared by Management)

December 31,
2005

June 30,
2005

ASSETS

CURRENT

Cash	\$ -	\$ 84,045
Term deposits	380,000	-
Accounts receivable	185,989	118,751
Due from related parties (Note 5)	59,568	51,560
Inventory (Note 6)	156,870	148,548
Prepaid expenses and deposits	29,439	19,206

PROPERTY, PLANT AND EQUIPMENT (Note 7)

TRADEMARKS

DEFERRED COSTS

	811,866	422,110
	477,338	512,699
	1,800	1,800
	5,223	8,213

\$ 1,296,227 \$ 944,822

LIABILITIES

CURRENT

Bank indebtedness	\$ 123,707	\$ -
Demand bank loan (Note 8)	79,300	97,476
Accounts payable and accrued liabilities	109,929	144,783
Current portion of long-term debt (Note 9)	50,004	50,004
Current portion of obligations under capital leases (Note 10)	26,651	27,478

389,591 319,741

LONG TERM DEBT (Note 9)

OBLIGATIONS UNDER CAPITAL LEASES (Note 10)

	142,735	167,737
	96,650	106,126
	239,385	273,863

628,976 593,604

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 3)

SHARE SUBSCRIPTIONS (Note 3)

CONTRIBUTED SURPLUS

DEFICIT

	859,990	859,990
	511,375	100,125
	264,978	264,978
	(969,092)	(873,875)

667,251 351,218

\$ 1,296,227 \$ 944,822

Approved on behalf of the Board:

/s/ Andrew Harris

Andrew Harris – Director

/s/ Brian Harris

Brian Harris – Director

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

RUSSELL BREWERIES INC.
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(Prepared by Management)

	Three months ended Dec. 31, 2005	Three months ended Dec. 31, 2004	Six months ended Dec 31, 2005	Six months ended Dec. 31, 2004
SALES	\$ 346,564	\$ 146,338	\$ 663,473	\$ 277,728
COST OF SALES	121,852	66,199	248,213	128,403
	224,712	80,139	415,260	149,325
EXPENSES				
Amortization	33,598	6,206	67,637	12,264
Interest on long term debt	4,541	1,496	9,062	2,276
Selling, general and administrative	232,294	138,706	430,787	218,623
Write-off of deferred financing costs	2,991	1,496	2,991	2,991
	273,424	147,904	510,477	236,154
NET LOSS FOR THE PERIOD	48,712	67,765	95,217	86,829
DEFICIT, BEGINNING OF PERIOD	920,380	268,119	873,875	249,055
DEFICIT, END OF PERIOD	\$ 969,092	\$ 335,884	\$ 969,092	\$ 335,884
LOSS PER SHARE – Basic and diluted	(\$.005)	(\$.04)	(\$.01)	(\$.06)
Weighted average number of shares outstanding	8,658,469	1,743,334	8,658,469	1,333,334

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

RUSSELL BREWERIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Prepared by Management)

	Three months ended Dec 31, 2005	Three months ended Dec 31, 2004	Six months ended Dec 31, 2005	Six months ended Dec 31, 2004
CASH FLOWS PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES				
Net loss for the three month period	\$ (48,712)	\$ (67,765)	\$ (95,217)	\$ (86,829)
Adjusted for non-cash items:				
Amortization	35,093	6,206	67,637	12,264
Write-off of deferred financing costs	1,496	1,496	2,991	2,991
	(12,123)	(60,063)	(24,589)	(71,574)
Net changes in non-cash working capital items:				
Accounts receivable	(28,314)	(1,952)	(67,238)	(5,483)
Prepaid expenses	(4,010)	(5,162)	(10,233)	(15,420)
Inventory	(23,150)	(81,855)	(8,322)	(82,197)
Deposits	-	(15,478)	-	(15,478)
Accounts payable and accrued liabilities	(46,707)	33,649	(34,854)	7,862
Advances payable	-	232,564	-	345,577
Due to and from related parties	(8,000)	(39,415)	(8,008)	(62,849)
	(110,181)	122,351	(128,655)	172,012
INVESTING ACTIVITIES				
Purchase of property and equipment	(24,823)	(249,395)	(32,277)	(268,687)
	(24,823)	(249,395)	(32,277)	(268,687)
FINANCING ACTIVITIES				
Capital lease, net of repayments	(5,519)	65,422	(10,303)	64,486
Bank loan, net of repayments	(12,501)	202,544	(25,002)	256,843
Demand loan repayments	(8,958)	(9,385)	(18,176)	(18,223)
Share subscriptions	300,000	-	411,250	-
	273,022	258,581	357,769	303,106
(DECREASE) INCREASE IN CASH	125,895	71,474	172,248	134,857
CASH, BEGINNING OF PERIOD	130,398	72,438	84,045	9,055
CASH AND TERM DEPOSITS, END OF PERIOD	\$ 256,293	\$ 143,912	\$ 256,293	\$ 143,912

Supplemental Cash Flow Information

Interest paid	\$4,541	\$3,655	\$ 9,062	\$ 6,670
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
(Prepared by Management)

NOTE 1 – BASIS OF PRESENTATION

The unaudited interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual financial statements for the year ended June 30, 2005.

The disclosures in the unaudited consolidated financial statements do not conform in all material respects to the requirements of generally accepted accounting principles for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the June 30, 2005 annual consolidated financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Principals of Consolidation

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

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash with maturities of three months or less when acquired. As at December 31, 2005 term deposits consisted of \$380,000, of which \$100,000 secured a \$100,000 business line of credit on the chequing account with TD Canada Trust.

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
(Prepared by Management)

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 \$794,105 (December 31, 2004 - \$334,694) 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
(Prepared by Management)

NOTE 3 - SHARE CAPITAL

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

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

	<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 December 31, 2005	<u>8,658,469</u>	<u>\$ 859,990</u>

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 December 31, 2005, the company had received a total of \$511,375 in subscriptions.

NOTE 4 – STOCK OPTION PLAN

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Prepared by Management)

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>December 31, 2005</u>	
	Weighted Average Exercise	
	<u>Number</u>	<u>Price</u>
Balance, beginning of year	885,000	\$ 0.58
Granted	-	-
Exercised	-	-
Forfeited/Cancelled	-	-
Balance, end of period	<u>885,000</u>	<u>\$ 0.58</u>

At December 31, 2005, the following stock options are outstanding:

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

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Prepared by Management)

- a) At December 31, 2005 directors of the Company were indebted to the Company for \$59,568 from cash advances. During the six months ended December 31, 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 six months ended December 31, 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 six months ended December 31, 2005, directors of the Company received management fees of \$23,000 (2004 - nil), During the six months ended December 31, 2005, relatives of directors received compensation from the Company in the amount of \$34,200 (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

	December 31, 2005	June 30, 2005
Finished goods and work-in-progress	\$17,141	\$17,641
Raw materials	12,240	11,740
Returnable containers and small ware, net of amortization	127,489	119,167
	\$156,870	\$148,548

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	December 31, 2005		June 30, 2005	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computers	\$ 15,678	\$ 7,956	\$ 7,722	\$ 6,653
Equipment	384,842	97,050	287,792	301,369
Leasehold improvements	3,718	1,332	2,386	2,758
Office furniture and fixtures	9,827	1,459	8,368	8,418
Vehicles	234,150	69,762	164,388	191,418
Website	7,420	738	6,682	2,083
	\$ 655,635	\$ 178,297	\$ 477,338	\$ 512,699

NOTE 8 – DEMAND BANK LOAN

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

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Prepared by Management)

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 December 31, 2005		\$192,739
Current portion of long term debt		(50,004)
		<u>\$142,735</u>
Future principal repayments are as follows:		
	fiscal year ending 2006	\$25,002
	fiscal year ending 2007	50,004
	fiscal year ending 2008	50,004
	fiscal year ending 2009	50,004
	fiscal year ending 2010	17,725
		<u>\$192,739</u>

NOTE 10 – OBLIGATIONS UNDER CAPITAL LEASES

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

Fiscal years ended:		
2006		\$29,238
2007		35,039
2008		72,747
2009		11,996
2010		<u>11,996</u>
		161,016
Less amount representing interest ranging from 1% to 13%		<u>(37,715)</u>
Present value of net minimum lease payments		123,301
Less current portion of capital lease payments		<u>(26,651)</u>
		<u>\$96,650</u>

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
(Prepared by Management)

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	\$16,050
2007	31,892
2008	<u>7,981</u>
	<u><u>\$55,923</u></u>