

RUSSELL BREWERIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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.
(Formerly New Market Ventures Inc.)
MANAGEMENT DISCUSSION
March 31, 2006
(Prepared by Management)

PREPARED AS OF May 30, 2006

Contact Information

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OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

Through its wholly owned subsidiary, Russell Brewing Company Ltd., Russell Breweries Inc. owns and operates a Vancouver-based microbrewery through which it produces draught beer for fine pubs and eateries in British Columbia. The Company's facilities, which include corporate offices, a plant, machinery, office equipment and storage, are located in South Surrey. The brewery offers main product lines include Russell Cream Ale, Russell Pale Ale, Russell Honey Blonde Ale, Russell Extra Special Lager, as well as two seasonal brews: Russell Lemon Ale and Russell Christmas Ale.

At March 31, 2006, Russell Breweries Inc., on a consolidated basis, held assets of \$1,195,057 including term deposits of \$200,000, accounts receivable of \$176,082, inventory recorded at \$188,197 and property, plant and equipment recorded at \$534,889. At the same date, the Company had liabilities totaling \$650,504, including bank indebtedness of \$110,855, a \$70,485 demand bank loan, accounts payable and accrued liabilities of \$144,353 and long term debt of \$241,794 relating to capital leases and a bank loan.

Russell Breweries Inc. recorded sales of \$936,291 for the nine month period ending March 31, 2006 compared to \$463,239 for the nine month period ending March 31, 2005, a comparable increase of 102%. The Company recorded a net loss of \$217,915 for the nine month period ended March 31, 2006 as compared to a loss of \$193,016 for the same nine month period in 2005. Cost of goods for the nine month period ending March 31, 2006 was \$344,350 compared to \$196,880 for the period ending March 31, 2005. During the fiscal period ended March 31, 2006, the Company incurred selling, general and administrative expenses of \$687,813 compared to \$409,319 for the comparative period in 2005. In addition, the Company recorded amortization costs of \$104,784 and interest on long term debt of \$12,773 for the nine month period ended March 31, 2006.

Details of expenses for the comparative periods are shown below:

| | Nine month period ended Mar 31, 2006 | Nine month period ended Mar 31, 2005 |
|---------------------------|--|--|
| Advertising and promotion | \$125,347 | \$74,898 |
| Automotive | 58,783 | 44,898 |
| Insurance | 3,143 | 2,199 |
| Interest on bank loan | 4,938 | 6,370 |
| Office | 23,042 | 12,339 |

| | | |
|--------------------------------|------------------|------------------|
| Repairs and Maintenance | 6,133 | 7,973 |
| Small ware | 2,303 | 4,875 |
| Labour | 296,998 | 163,943 |
| Management fees | 55,500 | 15,000 |
| Professional fees | 46,563 | 29,293 |
| Rent and utilities | 40,689 | 30,879 |
| Telephone | 9,003 | 8,163 |
| Transfer agent and filing fees | 15,371 | 8,489 |
| Total | <u>\$687,813</u> | <u>\$409,319</u> |

SUMMARY OF QUARTERLY RESULTS

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

| | 3rd Qtr. ended 3-31-06 | 2nd Qtr. ended 12-31-05 | 1st Qtr. ended 9-30-05 | 4 th Qtr. ended 6-30-05 | 3 rd Qtr. ended 3-31-05 | 2 nd Qtr. ended 12-31-04 | 1 st Qtr. ended 9-30-04 | 4 th Qtr. ended 6-30-04 |
|--------------------------|------------------------------|-------------------------------|------------------------------|--|--|---|--|--|
| Total Revenues | \$272,818 | \$346,564 | \$316,909 | \$313,815 | \$185,511 | \$146,338 | \$131,390 | \$123,078 |
| Operating Loss | (\$122,698) | (\$48,712) | (\$46,505) | (\$431,197) | (\$106,187) | (\$67,765) | (\$19,064) | (\$63,024) |
| Operating Loss Per Share | (\$0.01) | (\$0.01) | (\$0.01) | (\$0.07) | (\$0.07) | (\$0.04) | (\$0.00) | (\$0.01) |
| Total Net Loss | (\$122,698) | (\$48,712) | (\$46,505) | (\$431,197) | (\$106,794) | (\$67,765) | (\$19,064) | (\$63,024) |
| Total Net Loss Per Share | (\$0.01) | (\$0.01) | (\$0.01) | (\$0.07) | (\$0.07) | (\$0.04) | (\$0.00) | (\$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 nine month period ended March 31, 2006, the Company realized revenue of \$936,291 through the sale of its beer products. However, due to cost of sales of \$344,350 and operating expenses of \$809,856, the Company incurred a net loss of \$217,915 for the period. Ongoing operations are funded from a net cash balance from term deposits and bank indebtedness (\$89,145 at March 31, 2006 consisting of \$200,000 and (\$110,855) respectively) and from private placements of the Company's common shares. In addition, Russell Breweries Inc. had accounts receivable at March 31, 2006 of \$176,082, which it reasonably expects to collect.

At March 31, 2006, the Company had working capital of \$245,931. 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 April 2006, the Company announced a brokered private placement consisting of the sale of 5,000,000 common shares at \$0.30 for gross proceeds of \$1,500,000. The proceeds from the offering will be used to acquire additional capital equipment including a bottle line, for acquisitions and for general working capital.

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 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 March 31, 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.

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 nine month period ended March 31, 2006, the Company paid or accrued management fees of \$27,500 to Andrew Harris and \$28,000 to Brian Harris, salary of \$36,000 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 \$72,093. 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. See Note 4 on March 31, 2006 Financial Statements for further details.

As mentioned above, the Company announced a brokered private placement in April 2006 of up to 5,000,000 units at a price of \$0.30 per unit, with each unit consisting of one common share and one non-transferable common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional share of the company at a price of \$0.50 for a period of two years from the completion of the financing subject to an early expiry provision that once resale restrictions on the shares having expired and upon the Company's shares trading at or above a weighted average trading price of \$0.75 for 20 consecutive days the Company may give notice that the Warrants will expire 30 days from the date of providing such notice.

The units will be sold to eligible purchasers in the provinces of British Columbia, Alberta and Ontario and other jurisdictions as may be mutually agreed by the Company and Bolder Investment Partners, Ltd., (the "agent"). Upon closing, the agent will receive a cash commission equal to 7.5% of the gross proceeds of the offering, of which the agent may elect to be paid up to half in Units. In addition, the agent will be granted agent's warrants (the "agent's warrants") entitling the agent to purchase up to such number of common shares of the Company equal to 20% of the total number of units sold through the offering, for a period of two years from the date of closing of the offering. Each agent's warrant will be exercisable into one common share of the Company at \$0.30 and will also be subject to early expiry conditions. In addition, the agent will be paid an administrative fee of \$5,000, a corporate finance fee of 100,000 units, and a retainer amount of \$5,000 towards the reimbursement of all reasonable expenses related to the offering. All shares issued pursuant to the offering, and any shares issued pursuant to the exercise of agent's warrants, will be subject to a four month hold period.

The private placement is subject to completion of satisfactory due diligence by the agent with respect to the Company, completion and execution of appropriate documentation, and acceptance for filing by Canadian Trading and Quotation System Inc.

Also in April, the Company engaged the consulting services of RSR Holdings ("RSR") for its corporate development. RSR has extensive experience in and knowledge of corporate development in the financial industry. The term of the Agreement is for a one year period at a monthly fee of \$2,500, such term to be renewed at the option of the Company. In addition, the Company has agreed to grant RSR options to purchase 250,000 common shares of the Company at an exercise price of \$0.33 per share, exercisable for a period of five years. This forms part of the stock option grant that the Company granted in April mentioned above.

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)

March 31,
2006

June 30,
2005

ASSETS

CURRENT

| | | |
|---|--------------|------------|
| Cash | \$ - | \$ 84,045 |
| Term deposits | 200,000 | - |
| Accounts receivable | 176,082 | 118,751 |
| Due from related parties (Note 5) | 55,568 | 51,560 |
| Inventory (Note 6) | 188,197 | 148,548 |
| Prepaid expenses and deposits | 34,794 | 19,206 |
| | 654,641 | 422,110 |
| PROPERTY, PLANT AND EQUIPMENT (Note 7) | 534,889 | 512,699 |
| TRADEMARKS | 1,800 | 1,800 |
| DEFERRED COSTS | 3,727 | 8,213 |
| | \$ 1,195,057 | \$ 944,822 |

LIABILITIES

CURRENT

| | | |
|---|------------|---------|
| Bank indebtedness | \$ 110,855 | \$ - |
| Demand bank loan (Note 8) | 70,485 | 97,476 |
| Accounts payable and accrued liabilities | 144,353 | 144,783 |
| Current portion of long-term debt (Note 9) | 50,004 | 50,004 |
| Current portion of obligations under capital leases (Note 10) | 33,013 | 27,478 |
| | 408,710 | 319,741 |
| LONG TERM DEBT (Note 9) | 134,401 | 167,737 |
| OBLIGATIONS UNDER CAPITAL LEASES (Note 10) | 107,393 | 106,126 |
| | 241,794 | 273,863 |
| | 650,504 | 593,604 |

SHAREHOLDERS' EQUITY

| | | |
|-------------------------------|--------------|------------|
| SHARE CAPITAL (Note 3) | 1,371,365 | 859,990 |
| SHARE SUBSCRIPTIONS | - | 100,125 |
| CONTRIBUTED SURPLUS | 264,978 | 264,978 |
| DEFICIT | (1,091,790) | (873,875) |
| | 544,553 | 351,218 |
| | \$ 1,195,057 | \$ 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 Mar 31, 2006 | Three months ended Mar 31, 2005 | Nine months ended Mar 31, 2006 | Nine months ended Mar 31, 2005 |
|---|--|--|---|---|
| SALES | \$ 272,818 | \$ 185,511 | \$ 936,291 | \$ 463,239 |
| COST OF SALES | 96,137 | 68,477 | 344,350 | 196,880 |
| | 176,681 | 117,034 | 591,941 | 266,359 |
| EXPENSES | | | | |
| Amortization | 37,147 | 27,188 | 104,784 | 39,452 |
| Interest on long term debt | 3,711 | 3,842 | 12,773 | 6,118 |
| Selling, general and administrative | 257,026 | 190,696 | 687,813 | 409,319 |
| Write-off of deferred financing costs | 1,495 | 1,495 | 4,486 | 4,486 |
| | 299,379 | 223,221 | 809,856 | 459,375 |
| NET LOSS FOR THE PERIOD | 122,698 | 106,187 | 217,915 | 193,016 |
| DEFICIT, BEGINNING OF PERIOD | 969,092 | 335,884 | 873,875 | 249,055 |
| DEFICIT, END OF PERIOD | \$ 1,019,790 | \$ 442,071 | \$ 1,091,790 | \$ 442,071 |
| LOSS PER SHARE – Basic and diluted | (\$.01) | (\$.07) | (\$.02) | (\$.13) |
| Weighted average number of shares outstanding | 9,946,376 | 1,538,334 | 8,976,035 | 1,538,334 |

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 Mar 31, 2006 | Three months ended Mar 31, 2005 | Nine months ended Mar 31, 2006 | Nine months ended Mar 31, 2005 |
|--|--|--|---|---|
| CASH FLOWS PROVIDED BY (USED FOR): | | | | |
| OPERATING ACTIVITIES | | | | |
| Net loss for the three month period | \$ (122,698) | \$ (106,187) | \$ (217,915) | \$ (193,016) |
| Adjusted for non-cash items: | | | | |
| Amortization | 37,147 | 27,188 | 104,784 | 39,452 |
| Write-off of deferred financing costs | 1,495 | 1,495 | 4,486 | 4,486 |
| | (84,056) | (77,504) | (108,645) | (149,078) |
| Net changes in non-cash working capital items: | | | | |
| Accounts receivable | 9,907 | (84,661) | (57,331) | (90,144) |
| Prepaid expenses | (5,355) | 536 | (15,588) | (14,884) |
| Inventory | (31,327) | (43,442) | (39,649) | (125,639) |
| Deposits | - | (3,422) | - | (18,900) |
| Accounts payable and accrued liabilities | 34,424 | 67,348 | (430) | 75,210 |
| Due to and from related parties | 4,000 | (16,500) | (4,008) | (79,349) |
| | 11,649 | (80,141) | (117,006) | (253,706) |
| INVESTING ACTIVITIES | | | | |
| Purchase of property and equipment | (94,697) | (52,548) | (126,974) | (321,235) |
| FINANCING ACTIVITIES | | | | |
| Capital lease, net of repayments | 17,105 | (6,700) | 6,802 | 57,786 |
| Bank loan, net of repayments | (8,334) | (13,058) | (33,336) | 180,238 |
| Demand loan repayments | (8,815) | (5,630) | (26,991) | 39,694 |
| Share capital issued for cash | 511,375 | - | 511,375 | - |
| Share subscriptions | (511,375) | 94,579 | (100,125) | (440,156) |
| | (44) | 69,191 | 357,725 | 717,874 |
| (DECREASE) INCREASE IN CASH | (167,148) | (141,002) | 5,100 | (6,145) |
| CASH, BEGINNING OF PERIOD | 256,293 | 143,912 | 84,045 | 9,055 |
| CASH AND TERM DEPOSITS, END OF PERIOD | \$ 89,145 | \$ 2,910 | \$ 89,145 | \$ 2,910 |

Supplemental Cash Flow Information

| | | | | |
|-------------------|---------|---------|----------|-----------|
| Interest paid | \$5,161 | \$5,818 | \$17,686 | \$ 12,488 |
| Income taxes paid | \$ - | \$ - | \$ - | \$ - |

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

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006
(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 March 31, 2006, term deposits consisted of \$200,000, 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
MARCH 31, 2006
(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 \$1,137,869 (March 31, 2005 - \$551,182) 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
MARCH 31, 2006
(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 |
| Private Placement | 1,363,666 | 511,375 |
| Issued at March 31, 2006 | <u>10,022,135</u> | <u>\$1,371,365</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 January 2006, the Company closed a non-brokered private placement of \$511,375 made up of the sale of 1,363,666 common shares of its capital at \$.375 per share.

NOTE 4 – STOCK OPTION PLAN

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006
(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. Subsequent to this nine month period, these stock options were cancelled and 1,000,000 incentive stock options were issued at a price of \$0.33 per common share and an expiry date of April 13, 2011.

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

| | March 31, 2006 | |
|----------------------------|-----------------------|--|
| | Number | Weighted Average Exercise Price |
| Balance, beginning of year | 885,000 | \$ 0.58 |
| Granted | - | - |
| Exercised | - | - |
| Forfeited/Cancelled | - | - |
| | | |
| Balance, end of period | 885,000 | \$ 0.58 |

At March 31, 2006 the following stock options are outstanding:

| | Outstanding | | Exercisable | |
|-----------------------|--------------------|---|--------------------|---|
| Exercise Price | 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
MARCH 31, 2006
(Prepared by Management)

- a) At March 31, 2006 directors of the Company were indebted to the Company for \$55,568 from cash advances. During the nine months ended March 31, 2005, former and current directors of Russell Brewing Company Ltd., were indebted to the Company for \$68,303. These amounts are unsecured, non-interest bearing and have no specific terms of repayment.
- b) During the nine months ended March 31, 2005, former and current directors provided cash advances of \$200 for working capital purposes. These advances are unsecured, non-interest bearing and have no specific terms of repayment.
- c) During the nine months ended March 31, 2006, directors of the Company received management fees of \$55,500 (2005 - \$15,000). During the nine months ended March 31, 2006, relatives of directors received compensation from the Company in the amount of \$72,093 (2005-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

| | March 31, 2006 | 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 | 158,816 | 119,167 |
| | <u>\$188,197</u> | <u>\$148,548</u> |

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

| | March 31, 2006 | | June 30, 2005 | |
|-------------------------------|-------------------|-----------------------------|-------------------|-------------------|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| Computers | \$ 15,678 | \$ 8,497 | \$ 7,181 | \$ 6,653 |
| Equipment | 442,402 | 112,812 | 329,590 | 301,369 |
| Leasehold improvements | 12,104 | 1,727 | 10,377 | 2,758 |
| Office furniture and fixtures | 9,827 | 1,843 | 7,984 | 8,418 |
| Vehicles | 261,437 | 85,551 | 175,886 | 191,418 |
| Website | 4,825 | 954 | 3,871 | 2,083 |
| | <u>\$ 746,273</u> | <u>\$ 211,384</u> | <u>\$ 534,889</u> | <u>\$ 512,699</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.

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NOTE 9 – LONG TERM DEBT

Bank of Nova Scotia (“Scotia Bank”)

In July 2004, the Company obtained a Canadian government guaranteed bank loan from Scotia Bank in the amount of \$250,000. To June 30, 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 March 31, 2006 | | \$184,405 |
| Current portion of long term debt | | (50,004) |
| | | <u>\$134,401</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 | 9,391 |
| | | <u>\$184,405</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 | | \$49,313 |
| 2007 | | 38,752 |
| 2008 | | 70,390 |
| 2009 | | 10,996 |
| 2010 | | - |
| | | 169,451 |
| Less amount representing interest ranging from 1% to 13% | | <u>(29,045)</u> |
| Present value of net minimum lease payments | | 140,406 |
| Less current portion of capital lease payments | | <u>(33,013)</u> |
| | | <u>\$107,393</u> |

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NOTE 11 – OTHER COMMITMENTS

The Company entered into an operating lease for its premises which expires January 2007, with an option to renew for a further three years. In September 2004 the Company leased additional space under the same terms and conditions as the existing space.

| Fiscal years ended: | Operating <u>Leases</u> |
|---------------------|----------------------------|
| 2006 | \$16,050 |
| 2007 | 31,892 |
| 2008 | <u>7,981</u> |
| | <u>\$55,923</u> |

NOTE 12 – SUBSEQUENT EVENT

In April, the Company announced a brokered private placement of up to 5,000,000 units at a price of \$0.30 per unit. Each unit will consist of one common share and one non-transferable common share purchase warrant. Each whole warrant will entitle 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 will receive a cash commission equal to 7.5% of the gross proceeds. The agent will also receive common share purchase warrants, an administrative fee of \$5,000, a corporate finance fee of 100,000 common shares, and a retainer fee of \$5,000 towards the reimbursement of all reasonable expenses related to the private placement. The private placement is subject to completion of satisfactory due diligence by the agent and acceptance for filing by the CNQ Stock Exchange.