

RUSSELL BREWERIES INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007 and 2006
(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 and Analysis
For the three and nine ended months ended March 31, 2007

The following discussion and analysis prepared as of May 28, 2007 should be read in conjunction with the unaudited consolidated interim financial statements for the three and nine months ended March 31, 2007 and 2006 and the audited consolidated financial statements and related notes and Management Discussion and Analysis and for the fiscal year ended June 30, 2006.

FORWARD LOOKING STATEMENTS

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

OVERVIEW

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

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS

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

In October 2006 the Company completed a \$1,500,000 brokered private placement for net proceeds of \$1,385,000.

In February 2007, the Company began ordering new equipment to effectively double the size of its brewing capacity. This expansion order includes a bottling line and a canning line to be installed later in the year. To accommodate this expansion the Company doubled the size of its premises in April 2007.

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

In May 2007, the Company announced a three-year partnership agreement making Russell Brewing Company the Official Beer of the BC Lions and BC Place. Beginning with the club's pre-season home game on Friday, June 15th versus the Saskatchewan Roughriders, BC Place will be carrying a variety of Russell products including the Russell Extra Special Lager and Russell Pale Ale.

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On May 25, 2007 the Company entered into a letter of intent with Fort Garry Brewing Company ("Fort Garry") to purchase all of the common shares of Fort Garry through a Plan of Amalgamation. Holders of common shares in Fort Garry will have the option to receive either (a) one common share of Russell; or (b) one – half of one common share of Russell plus \$0.20 cash; or (c) \$0.40 cash. Fort Garry has 4,976,698 common shares outstanding. In addition the Company will purchase the 4% cumulative Preferred shares of Fort Garry for their par value plus any accrued redemption premium and accrued dividends estimated at a cost of \$940,804.

The Company has advanced Fort Garry a \$75,000 deposit, of which up to \$50,000 is refundable if the Company determines not to proceed with the transaction. If the Fort Garry board approve a "Superior Proposal" prior to the signing of a definitive agreement a termination fee of \$125,000 is payable to the Company. The Company and Fort Garry have 30 days to complete due diligence and negotiate the signing of a definitive agreement. The transaction is then subject to Fort Garry shareholder approval.

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

SELECTED ANNUAL INFORMATION

The following table presents selected financial information for the nine months ended March 31, 2007 and 2006, and the last three fiscal years ended June 30, 2006, 2005 and 2004:

	Nine Months Ended 31-Mar-07	Nine Months Ended 31-Mar-06	Year Ended 31-Jun-06	Year Ended 31-Jun-05	Year Ended 31-Jun-04
	Unaudited & restated	Unaudited & restated	Audited & restated	Audited & restated	Audited
	\$	\$	\$	\$	\$
Revenue (net sales)	864,085	625,733	902,988	517,835	161,008
Total income (loss) from continuing operations	(695,824)	(256,529)	(382,508)	(624,820)	(132,871)
Operating income (loss) per share	(0.05)	(0.03)	(0.04)	(0.10)	(0.08)
Net income (loss)	(695,824)	(256,529)	(382,508)	(624,820)	(132,871)
Basic and diluted earning (loss) per share	(0.05)	(0.03)	(0.04)	(0.10)	(0.08)
Total assets	2,548,597	1,156,442	1,018,436	944,822	334,064
Total long term financial liabilities	382,181	241,794	242,562	273,863	9,743
Cash dividends declared per share	Nil	Nil	Nil	Nil	Nil

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PERFORMANCE AND RESULTS OF OPERATIONS

At March 31, 2007, Russell Breweries Inc., had consolidated total assets of \$2,570,003 (2006 \$1,018,436) including cash and equivalents of \$976,366, restricted cash of \$200,000 and property, plant and equipment of \$865,427. The Company had total liabilities of \$1,014,552 (2006 \$654,172) including bank indebtedness of \$202,902, demand bank loan of \$33,642, other bank loan debt of \$134,366. debt under capital leases of \$437,195. Shareholders equity is \$\$1,555,451 (2006 \$364,264).

Prior Period Adjustment

The prior period adjustment of \$63,237 is to correct errors of recording sales and accounts receivable for the year ended June 30, 2006, \$18,443 of which is related to the six months ended December 31, 2005. The errors caused overstatements of sales resulting in understatements of net loss and deficit for the year ended June 30, 2006, and the three and nine months ended March 31, 2006, as well as overstatements of accounts receivable as of June 30, 2006, and March 31, 2006. The deficit and accounts receivable as of June 30, 2006 and March 31, 2006 as well as sales for the three and nine months ended March 31, 2006 have been restated in accordance with the recommendations of the Canadian Institute of Chartered Accountants with respect to Section 1506 "Accounting Changes" and "Prior Period Adjustments".

Changes in accounting policies

Effective January 1, 2007, the Company made a change in accounting policies, on a retroactive basis, to reclass portions of gross sales, net sales, cost of sales, selling costs and administration expense, cash and cash equivalents and restricted cash to make the financial statement items more consistent and comparable to the industry standard. Under this policy, gross sales are shown net of licensee discount, net sales are shown net of excise taxes and provincial mark-up and excludes licensee discount, cost of sales include production labour and exclude provincial mark-up, selling general and administration expense excludes production labour and term deposits pledged against lines of credit are shown as restricted cash. Gross sales, net sales, cost of sales and selling and general and administration costs for the three months ended March 31, 2006 and the nine months ended March 31, 2006 and the cash and cash equivalents and restricted cash balances as at June 30, 2006 have been restated in accordance with the recommendations of the Canadian Institute of Chartered Accountants with respect to Section 1506 "Accounting Changes" and "Prior Period Adjustments". These changes do not change reported net loss or deficit of any prior period.

The restatement reduces gross sales \$29,399 for the three months ended March 31, 2006 and by \$93,777 for the nine months ended March 31, 2006; reduces net sales by \$69,512 for the three months ended March 31, 2006 and by \$271,296 for the nine months ended March 31, 2006; reduces cost of goods sold by \$45,751 for the three months ended March 31, 2006 and by \$206,131 for the nine months ended March 31, 2006; and reduces selling general and administration expenses by \$23,761 for the three months ended March 31, 2006 and by \$65,165 for the nine months ended March 31, 2006. ash and cash equivalents as at June 30, 2006 were reduced by \$100,000 and restricted cash increased by \$100,000.

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Current Quarter

See Prior Period Adjustment and changes in accounting policy

Net sales for the three months ended March 31, 2007 were \$338,969 up \$156,482 or 85.7% compared to \$182,487 (restated) for the three months ended March 31, 2006. The gross margin was \$240,114 up \$107,366 or 80.9% compared to \$132,748 (restated) for the three nine months ended March 31, 2006 principally as a result of the increase in net sales.

Selling, general and administration expense for the three months ended March 31, 2007 increased \$128,839 or 55.2% to \$362,104 compared to \$233,265 (restated) for the three months ended March 31, 2006. The increase was in all expense categories reflecting the increase in sales and corporate activities and a one time additional expense in management fees and consulting expense of \$64,250.

In other items for the three months ended March 31, 2007 interest on long term debt increases 11,709 or 315% due to new capital purchases financed by long term debt, offset in part by a \$7,984 or 100% increase in interest income compared to the three months ended March 31, 2006.

For the three months ended March 31, 2007, the net loss was \$170,069 or \$0.01 per share compared to the net loss of \$142,870 (restated) or \$0.01 (restated) per share for the three months ended March 31, 2006.

Year-to-Date

See Prior Period Adjustment and changes in accounting policy

Net Sales for the nine months ended March 31, 2007 were \$864,085 up \$238,352 or 38.1% compared to \$625,733 (restated) for the nine months ended March 31, 2006. The gross margin was \$629,928 up \$141,767 or 29% compared to \$488,161 (restated) for the nine months ended March 31, 2006 as a result of the increase in net sales.

Selling, general and administration expense increased \$432,329 or 92.2% to \$1,196,743 compared to \$622,647 (restated) for the nine months ended March 31, 2006. The increase in expenses is primarily a result of an expansion currently underway at the brewery including a doubling of premise size and increasing brewing capacity, a ramp-up in sales activities in anticipation of increased capacity and new sales contracts, and an increase in corporate activity including completion of a major equity financing and expenses associated with the migration of the Company from the CNQ Exchange to the TSX Venture Exchange. In addition selling, general and administration expenses in the nine months ended March 31, 2007 included a one quarter increased charge of management and consulting expense of \$64,250 and \$86,976 of non-cash stock compensation expense.

In other items interest on long term debt increased 20,986 or 164.3% for the nine months ended March 31, 2007 due to new capital purchases financed by long term debt offset in part by a \$17,018 or a 100% increase in interest income compared to the nine months ended March 31, 2006.

For the nine months ended March 31, 2007, the net loss was \$695,824 or \$0.05 per share compared to the net loss of \$256,529 (restated) or \$0.03 per share for the comparable period in 2006.

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Summary of Quarterly Results

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

Fiscal Year	2007	2007	2007	2006	2006	2006	2006	2005
Quarter	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
		Restated	Restated	Restated	Restated	Restated	Restated	Restated
	\$	\$		\$	\$	\$	\$	\$
Total net revenues	338,969	259,753	265,363	277,255	182,487	233,606	209,640	209,277
Operating loss	(170,068)	(366,898)	(158,858)	(125,978)	(142,870)	(67,155)	(46,505)	(431,197)
Operating loss per share	(0.01)	(0.03)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.10)
Total net loss	(170,068)	(366,898)	(158,858)	(125,978)	(142,870)	(67,155)	(46,505)	(431,197)
Total net loss per share	(0.01)	(0.03)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.10)

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

Net cash used by operating activities in the three months ended March 31, 2007 was \$165,433 compared to \$72,407 in the three months ended March 31, 2006, an increase in net cash use of \$93,026, primarily as a result of a \$122,588 increase in accounts receivable.

Net cash used by operating activities in the nine months ended March 31, 2007 was \$596,929 compared to \$225,651 in the nine months ended March 31, 2006, an increase in net cash use of \$371,278, principally as a result of a \$439,294 increase in loss..

During the three months ended March 31, 2007 the Company purchased \$246,161 of property, plant and equipment compared to \$94,697 in the three months ended March 31, 2006, an increase of \$151,464.

During the nine months ended March 31, 2007 the Company purchased \$414,752 of property, plant and equipment compared to \$126,974 in the 2006 period, an increase of \$287,778.

During the three months ended March 31, 2007 the Company received \$615,302 from financing activities compared to \$44 used in the March 2006 quarter, an increase in financing activities of \$615,346. The principle financing activities during the March 31, 2007 quarter were share capital issued for cash of \$441,535 and capital leases net of repayments of \$191,476.

During the nine months ended March 31, 2007 the Company received \$2,019,266 from financing activities compared to \$357,725 in the nine months to March 2006, an increase in financing activities of \$1,661,541. The principle financing activities during the nine months ended March 31, 2007 were shares issued for net cash of \$1,800,035 and capital leases net of repayments of \$286,673. The principle financing activities during the nine months ended March 31, 2006 were shares issued for cash net of share subscriptions used of \$411,250.

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Financial condition

As at March 31, 2007, the Company has net working capital of \$869,713 including cash and equivalents of \$976,366. The Company also has \$200,000 of restricted cash, \$100,000 of which is securing bank indebtedness and \$100,000 a capital lease. Long term debt is \$382,181.

The Company has announced it has entered into a Letter of Intent to acquire Fort Garry Brewing Company Limited – see Business Developments and Significant Events. If all common shareholders take the cash option in addition to the preferred shareholder the total cash payment for the acquisition would be \$2,931,000.

Funds on hand are insufficient to fund this acquisition, the Company's expected operating losses and planned capital expenditures for the next twelve months. The Company intends to raise cash in the equity and/or debt markets and through normal bank and lease financing to fund the Fort Garry acquisition and to fund expected operating losses, working capital need and capital asset purchases.

COMMITMENTS

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

	Capital Leases
Fiscal year ending 2007	\$35,779
Fiscal year ending 2008	\$179,612
Fiscal year ending 2009	\$116,711
Fiscal year ending 2010	\$125,076
Fiscal year ending 2011	\$52,298
Fiscal year ending 2012	\$11,635
Total payments and balance of obligation	\$521,111
Less amounts representing interest ranging from 1% to 19%	(83,916)
Present value of net minimum lease payments	437,195

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

	Premises Lease
Fiscal years ending 2007	\$17,830
Fiscal years ending 2007	\$71,318
Fiscal years ending 2007	\$71,318
Fiscal years ending 2007	\$71,318

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RELATED PARTIES

Russell Breweries Inc.'s Board of Directors consists of Brian Harris, CEO, Andrew Harris, President and Chief Financial Officer, John Morgan, Rick Shier and Tom Maroon. During the nine months ended March 31, 2007, the Company paid or accrued management fees of \$181,750 to directors and total compensation for services to various relatives of Brian Harris and Andrew Harris of \$86,540. Brian Harris and Andrew Harris are father and son.

SHARE DATA

As of the date of this management discussion, Russell Breweries Inc. has 16,310,205 common shares without par value issued and outstanding.

SUBSEQUENT EVENTS

The Company received \$102,500 in respect of the exercise of 205,000 warrants to purchase common stock at \$0.50.

\$220,000 of escrow shares were released May 2, 2007

The Company entered into a Letter of Intent dated May 25, 2007 to acquire Fort Garry Brewing Company - see Business Developments and Significant Events.

RISKS AND UNCERTAINTIES

Credit risk

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

Business Risk

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

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

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

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Disclosure Controls and Procedures

Management has designed internal disclosure controls and procedures over disclosure controls and procedures and financial reporting appropriate for the nature and size of its operations to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company did not make any change in its internal control over financing reporting during the quarter and nine months ended March 31, 2007.

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

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

ADDITIONAL INFORMATION

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

RUSSELL BREWERIES INC.

March 31, 2007

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) (Audited and
Restated)

31-Mar-07 30-Jun-06

ASSETS

CURRENT

Cash and cash equivalents	\$ 976,366	\$ 1,318
Accounts receivables (Note 13)	247,525	140,166
Due from related parties (Note 5)	30,000	17,437
Inventory (Note 6)	222,967	188,110
Prepaid expenses and deposits	25,226	20,243
	1,502,084	367,274

RESTRICTED CASH (Note 2 and 7)

PROPERTY, PLANT AND EQUIPMENT (Note 8)

TRADEMARKS

DEFERRED COSTS

200,000	200,000	100,000
865,427	865,427	547,130
1,800	1,800	1,800
692	692	2,232
	\$ 2,570,003	\$ 1,018,436

LIABILITIES

CURRENT

Bank indebtedness (Note 7)	\$ 202,902	\$ 135,439
Demand bank loan (Note 9)	33,642	63,546
Accounts payable and accrued liabilities	185,041	132,761
Due to related parties (Note 5)	21,406	-
Current portion of long-term debt (Note 10)	50,004	50,004
Current portion of obligations under capital leases (Note 11)	139,376	29,860
	632,371	411,610

LONG TERM DEBT (Note 10)

OBLIGATIONS UNDER CAPITAL LEASES (Note 11)

84,362	84,362	121,900
297,819	297,819	120,662
	1,014,552	654,172

SHAREHOLDERS' DEFICIENCY

SHARE CAPITAL (Note 3)

CONTRIBUTED SURPLUS

DEFICIT (Note 13)

3,171,400	3,171,400	1,371,365
336,258	336,258	249,282
(1,952,207)	(1,952,207)	(1,256,383)
	1,555,451	364,264
	\$ 2,570,003	\$ 1,018,436

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 and nine months ended March 31, 2007 and 2006
(Unaudited - Prepared by Management)

	Three months ended		Nine months ended	
	<u>31-Mar-07</u>	<u>31-Mar-06</u> (Restated)	<u>31-Mar-07</u>	<u>31-Mar-06</u> (Restated)
REVENUE				
Gross Sales (Note 2 and Note 13)	\$ 441,512	\$ 294,193	\$ 1,177,425	\$ 1,005,477
Less excise taxes and provincial mark-up (Note 2)	102,543	111,706	313,340	379,744
NET REVENUES	<u>338,969</u>	<u>182,487</u>	<u>864,085</u>	<u>625,733</u>
COST OF GOODS SOLD (Note 2)	98,854	49,739	234,157	137,572
GROSS MARGIN	<u>240,115</u>	<u>132,748</u>	<u>629,928</u>	<u>488,161</u>
EXPENSES				
Selling, general and administrative (Note 2)	362,104	233,265	1,196,743	622,647
LOSS BEFORE THE UNDERNOTED	<u>121,989</u>	<u>100,517</u>	<u>566,815</u>	<u>134,486</u>
OTHER ITEMS				
Amortization	40,643	38,642	112,268	109,270
Interest income	(7,984)	-	(17,018)	-
Interest on long term debt	15,420	3,711	33,759	12,773
	<u>48,079</u>	<u>42,353</u>	<u>129,009</u>	<u>122,043</u>
NET LOSS FOR THE PERIOD	170,068	142,870	695,824	256,529
Deficit, beginning of the period				
As previously reported	1,782,139	969,092	1,193,146	873,875
Prior period adjustment (Note 13)	-	18,443	63,237	-
Adjusted balance of deficit, beginning of the period	<u>1,782,139</u>	<u>987,535</u>	<u>1,256,383</u>	<u>873,875</u>
Deficit, end of the period	<u>\$1,952,207</u>	<u>\$ 1,130,405</u>	<u>\$ 1,952,207</u>	<u>\$ 1,130,404</u>
Basic and diluted loss per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.03</u>
Weighted average number of shares outstanding	<u>15,122,135</u>	<u>9,946,376</u>	<u>13,186,369</u>	<u>8,976,035</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 and nine months ended March 31, 2007 and 2006
(Unaudited - Prepared by Management)

CASH FLOWS PROVIDED BY (USED FOR):	Three months ended		Nine months ended	
	<u>31-Mar-07</u>	<u>31-Mar-06</u> (Restated)	<u>31-Mar-07</u>	<u>31-Mar-06</u> (Restated)
OPERATING ACTIVITIES				
Net loss for the period	\$ (170,068)	\$ (142,870)	\$ (695,824)	\$ (256,530)
Adjusted for non-cash items:				
Amortization	40,643	38,642	112,268	109,270
Stock compensation expenses	-	-	86,976	-
	<u>(129,425)</u>	<u>(104,228)</u>	<u>(496,580)</u>	<u>(147,260)</u>
Changes in non-cash working capital items:				
Accounts receivable	(92,509)	30,079	(107,359)	(18,716)
Prepaid expenses and deposits	(10,645)	(5,355)	(4,983)	(15,588)
Inventory	(30,830)	(31,327)	(49,130)	(39,649)
Accounts payable and accrued liabilities	27,432	34,424	52,280	(430)
Due to and from related parties (net)	70,544	4,000	8,843	(4,008)
	<u>(165,433)</u>	<u>(72,407)</u>	<u>(596,929)</u>	<u>(225,651)</u>
INVESTING ACTIVITIES				
Purchase of property and equipment	(246,161)	(94,697)	(414,752)	(126,974)
Restricted cash	(100,000)	(100,000)	(100,000)	(100,000)
	<u>(346,161)</u>	<u>(194,697)</u>	<u>(514,752)</u>	<u>(226,974)</u>
FINANCING ACTIVITIES				
Bank loan, net of repayments	(8,334)	(8,334)	(37,538)	(33,336)
Capital lease, net of repayments	191,476	17,105	286,673	6,802
Demand loan repayments	(9,375)	(8,815)	(29,904)	(26,991)
Share capital issued for cash	441,535	511,375	1,800,035	511,375
Share subscriptions	-	(511,375)	-	(100,125)
	<u>615,302</u>	<u>(44)</u>	<u>2,019,266</u>	<u>357,725</u>
Increase (decrease) in cash during the period	103,708	(267,148)	907,585	(94,900)
Cash, beginning of period	669,756	256,293	(134,121)	84,045
Cash and term deposits, end of period	<u>\$ 773,464</u>	<u>\$ (10,855)</u>	<u>\$ 773,464</u>	<u>\$ (10,855)</u>
Cash and cash equivalents consist of				
Cash (bank indebtedness)	(202,902)	(110,855)	(202,902)	(110,855)
Term deposits	976,366	100,000	976,366	100,000
	<u>\$ 773,464</u>	<u>\$ (10,855)</u>	<u>\$ 773,464</u>	<u>\$ (10,855)</u>
Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest	<u>\$ 15,420</u>	<u>\$ 3,711</u>	<u>\$ 33,759</u>	<u>\$ 12,773</u>
Income Taxes	<u>\$ -</u>	<u>\$ -</u>	<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
March 31, 2007
(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. These interim financial statements should be read in conjunction with the Company's annual June 30, 2006 audited consolidated financial statements.

Note 2 Change in Significant Accounting Policies

Effective January 1, 2007, the Company made a change in accounting policies, on a retroactive basis, to reclass portions of gross sales, net sales, cost of sales, selling costs and administration expense, cash and cash equivalents and restricted cash to make the financial statement items more consistent and comparable to the industry standard. Under this policy, gross sales are shown net of licensee discount, net sales are shown net of excise taxes and provincial mark-up and excludes licensee discount, cost of sales include production labour and exclude provincial mark-up, selling general and administration expense excludes production labour and term deposits pledged against lines of credit are shown as restricted cash. Gross sales, net sales, cost of sales and selling and general and administration costs for the three months ended March 31, 2006 and the nine months ended March 31, 2006 and the cash and cash equivalents and restricted cash balances as at June 30, 2006 have been restated in accordance with the recommendations of the Canadian Institute of Chartered Accountants with respect to Section 1506 "Accounting Changes" and "Prior Period Adjustments". These changes do not change reported net loss or deficit of any prior period.

The restatement reduces gross sales \$29,399 for the three months ended March 31, 2006 and by \$93,777 for the nine months ended March 31, 2006; reduces net sales by \$69,512 for the three months ended March 31, 2006 and by \$271,296 for the nine months ended March 31, 2006; reduces cost of goods sold by \$45,751 for the three months ended March 31, 2006 and by \$206,131 for the nine months ended March 31, 2006; and reduces selling general and administration expenses by \$23,761 for the three months ended March 31, 2006 and by \$65,165 for the nine months ended March 31, 2006. Cash and cash equivalents as at June 30, 2006 were reduced by \$100,000 and restricted cash increased by \$100,000.

RUSSELL BREWERIES INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007

Note 3 Share Capital

a) Authorized

400,000,000 common shares, without par value

b) Issued

	31-Mar-07		31-Mar-06	
	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	5,000,000	1,500,000	2,109,466	504,578
Private placement	-	-	1,363,666	511,375
Finder's fee	-	(112,500)	-	-
Share issue costs	100,000	(29,000)	-	-
Exercise of warrants	983,070	441,535		
Balance, ending	<u>16,105,205</u>	<u>\$ 3,171,400</u>	<u>10,022,135</u>	<u>\$ 1,371,365</u>

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

c) Escrow Shares

At March 31, 2007, 661,500 (2006: 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
May 2, 2007	220,500
November 2, 2007	220,500
May 2, 2008	220,500
	<u>661,500</u>

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

d) Private Placement

In October 2006, the Company closed a brokered private placement of 5,000,000 units at a price of \$0.30 per unit for total proceeds of \$1,500,000, net proceeds of \$1,358,500. Each unit consists of one common share and one non-transferable common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at \$0.50 for a period of two years from completion of the financing subject to an early expiry provision. Upon closing, the brokered agent received a cash commission equal to 7.5% of the gross proceeds. The agent also received 1,000,000 common share purchase warrants exercisable for a period of two years at a price of \$0.30 per unit, an administrative fee of \$5,000, a corporate finance fee of 100,000 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.

Note 3 Share Capital - (cont'd)

e) Share Purchase Warrants

At March 31, 2007, 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
4,366,930	\$ 0.500	17-Oct-08
750,000	\$ 0.300	17-Oct-08

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 TSX Venture Exchange. The options may be granted under this plan exercisable over a period not exceeding five years.

In May 2005 the Company granted stock options to purchase up to 885,000 common shares exercisable at a price of \$ 0.58 per share on or before May 18, 2009. In April 2006, these stock options were cancelled and the Company granted 1,000,000 incentive stock options exercisable at a price of \$0.33 per share and an expiry date of April 13, 2011. On June 15, 2006, 250,000 of these stock options were cancelled.

On October 20, 2006, the Company issued 760,000 stock options exercisable for a period of 5 years at a price of \$0.48 per share. Meanwhile, the Company cancelled 10,000 stock options exercisable at \$0.33 per share with an expiry date of April 13, 2011.

A summary of the status of the Company's stock option plan as of March 31, 2007 and March 31, 2006 and changes during the periods then ended is presented below:

	31-Mar-07		31-Mar-06	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning balance	750,000	\$ 0.33	885,000	\$ 0.58
Granted	760,000	0.48	-	-
Exercised	-	-	-	-
Forfeited/Cancelled	(10,000)	0.33	-	-
Outstanding, ending balance	1,500,000	\$ 0.41	885,000	\$ 0.58

At March 31, 2007, 1,500,000 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
740,000	\$ 0.33	13-Apr-11
760,000	\$ 0.48	20-Oct-11

Note 4 Stock Option Plan - (cont'd)

The fair values of the options granted during the nine months ended March 31, 2007 and the nine months ended March 31, 2006 were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Nine Months Ended 31-Mar-07	Nine Months Ended 31-Mar-06
Risk-free interest rate	4.50%	4.31%
Dividend yield	0%	0%
Expected stock price volatility	15%	120%
Expected life of options	5 years	5 years
Weighted average fair value per share	\$0.12	\$0.33

For the nine months ended March 31, 2007, the Company recognized stock based compensation in the amount of \$86,976 representing the issuance of 760,000 stock options at \$90,300, less the cancellation of 10,000 stock options at \$3,324.

Note 5 Due from/to Related Parties

- a) As at March 31, 2007 a director of the Company was indebted to the Company for \$30,000 (June 30, 2006: nil) from cash advances bearing interest at 8% per annum, unsecured, without specific terms of repayment. Subsequent to March 31, 2007, this advance was repaid
- b) During the nine months ended March 31, 2007 and 2006, the Company incurred the following charges with directors of the Company and relatives of directors:

	31-Mar-07	31-Mar-06
Compensation paid to relatives of directors	\$ 86,540	\$ 72,093
Consulting fees and salaries paid to directors	40,000	-
Management fees paid to directors	141,750	55,500
	<u>\$ 268,290</u>	<u>\$ 127,593</u>

The above transactions were recorded at exchange value, which was the amount of consideration established and agreed to by the related parties.

- c) In October 2006, a director purchased 250,000 common shares in the Company through a private placement for \$75,000.

Note 6 Inventory

	31-Mar-07	30-Jun-06
Finished goods and work-in-progress	\$ 19,224	\$ 25,092
Raw materials	5,527	4,744
Promotional materials	35,771	-
Returnable containers and small ware, net of amortization	162,445	158,274
	<u>\$ 222,967</u>	<u>\$ 188,110</u>

Note 7 Restricted cash

	31-Mar-07	30-Jun-06
Term deposits	\$ 200,000	\$ 100,000

\$100,000 of term deposits is security for a \$100,000 bank line of credit and \$100,000 is security for a capital lease.

Note 8 Property, Plant and Equipment

	31-Mar-07			30-Jun-06
	Cost	Acc. Depr.	Net	Net
Computers	\$ 16,117	\$ 10,150	\$ 5,967	\$ 6,979
Equipment	733,689	178,718	554,971	321,588
Leasehold improvements	30,029	6,321	23,708	22,193
Office furniture and fixtures	9,827	3,316	6,511	8,418
Vehicles	419,322	147,746	271,576	191,418
Website	4,825	2,131	2,694	2,083
	<u>\$ 1,213,809</u>	<u>\$ 348,382</u>	<u>\$ 865,427</u>	<u>\$ 552,679</u>

Note 9 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.

Note 10 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 March 31, 2007 the Company has drawn down \$242,743 against this amount. Repayment was interest only at bank prime rate plus 2.5% per annum until December 31, 2004. Commencing January 2005, repayment was \$4,167 per month plus interest at the bank prime rate plus 2.5%, maturing in December, 2010. The loan is secured by a general security agreement over present property and property acquired in the future including all equipment, goods and inventory, property insurance showing loss payee as the Scotia Bank, as well as a personal guarantee of a director in the amount of \$62,500.

	Principal Amount
Loan amount as at March 31, 2007	\$ 134,366
Current portion of long term debt	(50,004)
	<u>\$ 84,362</u>
Future principal repayments are as follows:	
Fiscal year ending 2007	\$ 16,668
Fiscal year ending 2008	50,004
Fiscal year ending 2009	50,004
Fiscal year ending 2010	17,690
	<u>\$ 134,366</u>

Note 11 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 year ending 2007	\$ 35,779
Fiscal year ending 2008	179,612
Fiscal year ending 2009	116,711
Fiscal year ending 2010	125,076
Fiscal year ending 2011	52,298
Fiscal year ending 2012	<u>11,635</u>
	521,111
Less amount representing interest ranging from 1% to 19%	<u>(83,916)</u>
Present value of net minimum lease payments	437,195
Less current portion of capital lease payments	<u>(139,376)</u>
	<u><u>\$ 297,819</u></u>

Note 12 Other Commitments

The Company's premises lease expires January 2010.

	Premises Lease
Fiscal year ending 2007	\$ 17,830
Fiscal year ending 2008	71,318
Fiscal year ending 2009	71,318
Fiscal year ending 2010	<u>41,602</u>
	<u><u>\$ 202,068</u></u>

Note 13 Prior Period Adjustment

The prior period adjustment of \$63,237 is to correct errors of recording sales and accounts receivable for the year ended June 30, 2006, \$18,443 of which is related to the six months ended December 31, 2005. The errors caused overstatements of sales resulting in understatements of net loss and deficit for the year ended June 30, 2006, and the three and nine months ended March 31, 2006, as well as overstatements of accounts receivable as of June 30, 2006, and March 31, 2006. The deficit and accounts receivable as of June 30, 2006 and March 31, 2006 as well as sales for the three and nine months ended March 31, 2006 have been restated in accordance with the recommendations of the Canadian Institute of Chartered Accountants with respect to Section 1506 "Accounting Changes" and "Prior Period Adjustments".

Note 14 Subsequent Events

- a) Subsequent to March 31, 2007, 205,000 warrants were exercised at \$0.50 (Note 3).
- b) Subsequent to March 31, 2007, 220,500 escrow shares were released. (Note 3)
- c) The Company entered into a letter of intent with Fort Garry Brewing Company dated May 25, 2007 to purchase all of the common shares of Fort Garry through a Plan of Amalgamation. Holders of common shares in Fort Garry will have the option to receive either (a) one common share of Russell or (b) one – half of one common share of Russell plus \$0.20 cash; or (c) \$0.40 cash. Fort Garry has 4,976,698 common shares outstanding. In addition the Company will purchase the 4% cumulative Preferred shares of Fort Garry for their par value plus any accrued redemption premium and accrued dividends estimated at a cost of \$940,804.

The Company has advanced Fort Garry a \$75,000 deposit, of which up to \$50,000 is potentially non-refundable if the Company determines not to proceed with the transaction. If the Fort Garry board approve a "superior proposal" prior to the signing of a definitive agreement a termination fee of \$125,000 is payable to the Company. The Company and Fort Garry have 30 days to complete due diligence and negotiate the signing of a definitive agreement. The transaction is subject to Fort Garry shareholder approval.