

RUSSELL BREWERIES INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(UNAUDITED)

**RUSSELL BREWERIES INC.
INTERIM CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

March 31,
2008

June 30,
2007

ASSETS

CURRENT

Cash and cash equivalents	\$ 1,398,675	\$ 140,628
Short-term investments	-	402,781
Accounts receivable	834,031	409,606
Inventory	858,087	332,780
Prepaid expenses and deposits	71,340	263,092

3,162,133

1,548,887

RESTRICTED CASH

200,000

200,000

CAPITAL ASSETS

3,409,147

903,903

BRANDS AND TRADEMARKS (Note 3)

1,775,083

1,800

DEFERRED COSTS

53,304

141,007

GOODWILL (Note 3)

437,815

-

\$ 9,037,482

\$ 2,795,597

LIABILITIES

CURRENT

Bank indebtedness	\$ -	\$ 376,841
Demand bank loan	-	24,267
Accounts payable and accrued liabilities	654,630	428,375
Refundable deposits	211,571	-
Due to related parties (Note 7)	-	1,945
Current portion of long-term debt (Note 4)	275,004	50,004
Current portion of obligations under capital leases	126,232	142,806

1,267,437

1,024,238

LONG-TERM DEBT (Note 4)

1,632,885

67,694

OBLIGATIONS UNDER CAPITAL LEASES

319,975

291,794

3,220,297

1,383,726

PREFERRED SHARES (Note 5)

540,662

-

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 5)	8,153,902	2,794,158
CONTRIBUTED SURPLUS (Note 5)	1,448,274	1,075,743
DEFICIT	(4,325,653)	(2,457,760)

5,276,523

1,411,871

\$ 9,037,482

\$ 2,795,597

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.
INTERIM CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(UNAUDITED)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 31, 2008	Nine Months Ended March 31, 2007
SALES	\$ 1,276,601	\$ 441,512	\$ 3,076,040	\$ 1,177,425
Less excise tax and provincial mark-up	197,068	102,543	582,379	313,340
NET REVENUE	1,079,533	338,969	2,493,661	864,085
COST OF SALES	413,040	98,854	920,319	234,157
GROSS MARGIN	666,494	240,115	1,573,342	629,928
EXPENSES				
Selling, general and administrative	976,053	362,104	2,756,685	1,196,743
	976,053	362,104	2,756,685	1,196,743
LOSS BEFORE THE UNDERNOTED	309,560	121,989	1,183,343	566,815
OTHER (INCOME) / EXPENSES				
Amortization	301,816	40,643	629,613	112,268
Interest on long-term debt	58,447	15,420	111,602	33,759
Interest and other income	(18,814)	(7,984)	(56,665)	(17,018)
	341,449	48,079	684,550	129,009
NET LOSS FOR THE PERIOD	651,009	170,068	1,867,893	695,824
DEFICIT, BEGINNING OF THE PERIOD				
As previously reported	3,674,644	1,782,139	2,457,760	1,193,146
Prior period adjustment (Note 8)	-	-	-	63,237
Deficit, as restated	3,674,644	1,782,139	2,457,760	1,256,383
DEFICIT, END OF THE PERIOD	\$ 4,325,653	\$ 1,952,207	\$ 4,325,653	\$ 1,952,207
LOSS PER SHARE – Basic and diluted	\$ 0.02	\$ 0.01	\$ 0.08	\$ 0.05
Weighted average number of shares outstanding	26,607,603	15,122,135	23,834,603	13,186,369

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

RUSSELL BREWERIES INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 31, 2008	Nine Months Ended March 31, 2007
CASH FLOWS PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES				
Net loss for the year	\$ (651,009)	\$ (170,068)	\$ (1,867,893)	\$ (695,824)
Adjusted for non-cash items:				
Amortization	301,816	40,643	629,613	112,268
Stock based compensation expenses	-	-	280,800	86,976
	(349,193)	(129,425)	(957,480)	(496,580)
Net changes in non-cash working capital items:				
Accounts receivable	(45,223)	(92,509)	(78,188)	(107,359)
Prepaid expenses and deposits	16,642	(10,645)	256,546	(4,983)
Inventory	(153,505)	(30,830)	(154,242)	(49,130)
Accounts payable and accrued liabilities	(64,914)	27,432	(181,151)	52,280
Refundable deposits	41,914	-	28,958	-
Due to and from related parties	-	70,544	(1,945)	8,843
	(554,279)	(165,433)	(1,087,502)	(596,929)
INVESTING ACTIVITIES				
Short-term investments	354,146	-	402,781	-
Deferred costs	236	-	110,844	-
Purchase of capital assets	(77,025)	(32,720)	(583,309)	(91,475)
Cash portion of business acquisition, net of cash acquired	-	-	(1,483,349)	-
Restricted cash	-	-	-	(100,000)
	277,357	(32,720)	(1,553,114)	(191,475)
FINANCING ACTIVITIES				
Loan, net of repayments and up-front interest	(6,334)	(8,334)	871,441	(37,538)
Capital lease repayments	(31,447)	(21,965)	(134,078)	(36,604)
Demand loan repayments	(5,517)	(9,375)	(24,267)	(29,904)
Share capital issued for cash	(4,720)	441,535	2,996,808	1,800,035
Preferred share issued for cash	565,600	-	565,600	-
	517,582	401,861	4,275,504	1,695,989
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	240,659	203,708	1,634,888	907,585
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,158,015	569,756	(236,213)	(134,121)
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,398,675	\$ 773,464	\$ 1,398,675	\$ 773,464
CASH AND CASH EQUIVALENTS CONSIST OF:				
Cash	\$ 395,436	\$ 59,128	\$ 395,436	\$ 59,128
Bank Indebtedness	-	(262,030)	-	(262,030)
Bankers Acceptance and Term Deposits	1,003,239	976,366	1,003,239	976,366
	\$ 1,398,675	\$ 773,464	\$ 1,398,675	\$ 773,464
Supplemental Cash Flow Information				
Interest paid	\$ 58,447	\$ 15,420	\$ 111,602	\$ 33,759
Income taxes paid	\$ -	\$ -	\$ -	\$ -

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

RUSSELL BREWERIES INC.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2008

NOTE 1 - NATURE OF OPERATIONS

The Company was incorporated under the British Columbia Company Act on March 23, 2000. The Company operates a craft brewery based in Surrey, British Columbia, Canada. On October 22, 2007 the Company, acquired by way of amalgamation, the Fort Garry Brewing Company Ltd. ("Fort Garry") that operates a craft brewery in Winnipeg, Manitoba, Canada. Refer to Notes 3 and 5. The Company's shares are traded on the TSX Venture Exchange.

The Company has neither a history of earnings nor has it paid any dividends and it is unlikely to pay dividends or enjoy earnings in the immediate or foreseeable future. At March 31, 2008, the Company has working capital of \$1,894,696 and has accumulated losses from inception of \$4,325,653. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations and to generate sustainable significant revenue. There is no guarantee that the Company will be able to raise any equity financing or generate profitable operations. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Changes in Accounting Policies

The disclosures contained in the unaudited interim financial statements do not include all requirements of generally accepted accounting principles for annual financial statements. The unaudited interim financial statements should be read in conjunction with the annual financial statements for the year ended June 30, 2007. They follow the same accounting policies except as noted below.

Effective July 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. These new standards have been adopted on a prospective basis with no restatement of prior period amounts. The adoption of these policies have had no material effect on these financial statements.

Handbook Section 1530, *Comprehensive Income*, establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Handbook Section 3251, *Equity*, establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately components and changes in equity arising from i) net earnings; ii) other comprehensive income; iii) other changes in retained earnings; iv) changes in contributed surplus; v) changes in share capital; vi) changes in reserves.

Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized to cost. Changes in fair value are to be recognized in the statement of operations and the statement of comprehensive income. All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to July 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- i) Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2008

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ii) Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- iii) Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- iv) All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period they arise.

NOTE 3 – BUSINESS ACQUISITION

Effective October 22, 2007 the Company acquired all the issued common shares of Fort Garry Brewing Company Ltd for cash consideration of \$309,247 and equity consideration of \$2,353,998 equivalent shares of the Company's common stock at a fair market value of \$0.56 per share. In addition the Company paid cash consideration of \$953,726 to redeem the 4% cumulative preferred shares of Fort Garry including their par value and accrued redemption premium and accrued dividends. The transaction costs are \$467,286, which include 100,000 common shares of the Company issued at a fair market value of \$0.46 as part of a corporate finance fee.

The Fort Garry acquisition has been accounted for using the purchase method, with Russell Breweries Inc., as the acquirer and the assets and liabilities acquired recorded at their fair values as determined by an independent valuation. Fort Garry's results of operations are included in these consolidated financial statements from October 23, 2007. The comparative figures for the consolidated balance sheets presented as at June 30, 2007 and the comparative figures for the statements of loss and deficit and cash flows for the three and nine months ended March 31, 2007 do not include Fort Garry.

As management does not consider the resulting future income tax asset resulting from the allocation of the purchase price to be more likely than not to be recoverable, a valuation allowance has been provided for the full amount.

Fair values of net assets acquired:

Cash	\$ 202,435
Accounts Receivable	346,237
Inventory	342,794
Prepaid Expenses And Deposits	64,794
	956,260
Capital Assets	2,459,926
Intangible Assets: Brands and Trademarks	1,773,283
Goodwill	437,815
	5,627,284
Accounts Payable And Accrued Liabilities	(407,406)
Refundable deposits	(182,613)
Current Portion Of Long-Term Debt	(225,000)
	4,812,265
Long Term Debt	(693,750)
Obligations Under Capital Leases	(34,258)
	\$ 4,084,257

Consideration given:

Issuance of 4,203,566 common shares of Russell	\$ 2,353,998
Cash payment	309,247
Redemption of Fort Garry preferred shares	953,726
Transaction Costs	467,286
	\$4,084,257

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2008

NOTE 4 – LONG TERM DEBT

	Mar 31, 2008	June 30, 2007
<u><i>Bank of Nova Scotia Loan</i></u>	\$ 80,195	\$ 117,698
Loan payable, maturing December 2010, with principal repayments of \$4,167 per month commencing January 2005, plus interest at the bank prime rate plus 2.5%. 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 Bank of Nova Scotia, as well as a personal guarantee of a director in the amount of \$62,500.		
<u><i>Business Development Bank of Canada loan</i></u>	\$862,500	-
Loan payable, maturing November 2009, with principal repayments of \$18,750 per month commencing November 2005, plus interest at 7.78%. The loan is secured by security interests in all of Fort Garry, the Company's subsidiary, present and future acquired personal property subject to postponement and subordination to the security held by the Bank of Nova Scotia with respect to a line of credit provided to Fort Garry.		
<u><i>Loan Advance⁽¹⁾</i></u>	\$965,000	-
Loan advance payable, maturing December 31, 2010, with repayment of the principal amount \$965,000 at maturity, plus accumulated interest at 8.5% calculated semi-annually. The Loan is secured by a subordinated security agreement creating a security interest and charge over all of Russell Breweries Company Ltd. and Fort Garry Brewing Company Ltd., both wholly-owned subsidiaries of the Company, respective property and assets subordinate to senior debt and senior security of up to \$2.5 million plus capital lease obligations incurred for future acquisitions of equipment and other capital assets.		
	1,938,946	117,698
Add accumulated interest	23,087	-
Less		
Deferred interest	(22,894)	-
Current portion	(275,004)	(50,004)
	\$ 1,632,885	\$ 67,694

Future principal repayments are as follows:

Fiscal year ending 2008	68,751
Fiscal year ending 2009	275,004
Fiscal year ending 2010	242,690
Fiscal year ending 2011	1,190,000
Fiscal year ending 2012	131,250
	\$1,907,695

- (1) On December 31, 2007, the Company entered into a loan agreement (the "Loan Agreement") pursuant to which the "Lender", a shareholder of the Company, provided to the Company a loan (the "Loan") valued at maturity in the amount of \$1,239,000. A discounted value or Loan advance amount of \$965,000 is calculated based on an 8.5% per annum interest rate, calculated semi-annually, with interest payable on maturity resulting in a total loan value at maturity of \$1,239,000. In consideration of the Lender agreeing to provide the Loan, the Lender earned a bonus of \$25,000 deducted from the Loan advance amount for a net advance to Russell of \$940,000. The term of the Loan is three years. The Company may repay the Loan at any time without penalty by paying the discounted Loan advance amount of \$965,000 together with accumulated interest.

The Loan is guaranteed by Russell Breweries Company Ltd. ("RBCL") and Fort Garry Brewing Company Ltd. ("Fort Garry"), both wholly-owned subsidiaries of the Company. The Company intends to repay the Loan by utilizing cash flow or by a debt or equity refinancing.

The Company intends to use the proceeds of the Loan for its brewery operations, the launch of packaged products in British Columbia, capital expenditures, miscellaneous expenditures and for general working capital.

NOTE 4 – LONG TERM DEBT (CONTINUED)

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2008

As security for the Loan, Russell, RBCL, and Fort Garry will grant to the Lender a subordinated security agreement creating a security interest and charge over all of their respective property and assets subordinate to senior debt and senior security of up to \$2.5 million plus capital lease obligations incurred for future acquisitions of equipment and other capital assets.

As a bonus, Russell issued 250,000 warrants (the "Warrants") to the Lender, each warrant entitling the holder to purchase one Russell common share at a price of \$0.65 per share. The Warrants will expire two years after the date of issuance. The Warrants and any shares issued upon exercise of the Warrants are subject to a hold period of four months plus one day from the date of issuance of the Warrants.

NOTE 5 - SHARE CAPITAL

a) Authorized

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

b) Issued

	Common Shares		Value		Contributed Surplus
Issued at June 30, 2006	10,022,135	\$	1,371,365	\$	249,282
Stock-based compensation	-		-		344,191
Agent's warrants	-		(482,000)		482,000
Corporate finance fee	100,000		30,000		-
Non cash issue costs	-		(30,000)		-
For cash:					
Private placement	5,000,000		1,500,000		-
Share issue costs	-		(146,500)		-
Exercise of warrants	1,216,085		551,293		-
Issued at June 30, 2007	16,338,220	\$	2,794,158	\$	1,075,473
Loan warrants					30,000
Preferred share warrants					24,938
Stock-based compensation	-		-		280,800
Agent's warrants	-		(37,063)		37,063
Corporate finance fee shares	150,000		76,000		-
Commission shares	13,896		8,338		-
Non cash issue costs	-		(38,338)		-
Acquisition of Fort Garry by way of issuance of common shares	4,203,566		2,353,998		-
For cash:					
Private placement	5,294,166		3,176,500		-
Share issue costs	-		(377,841)		-
Exercise of warrants	660,500		198,150		-
Issued at March 31, 2008	26,660,348		\$8,153,902		\$1,448,274

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2008

NOTE 5 - SHARE CAPITAL (CONTINUED)

c) Escrow Shares

At March 31, 2008, 220,500 (2006: 882,000) common shares issued are held in escrow and will be released on May 2, 2008.

d) Private Placement

In July 2007, the Company closed a brokered private placement of 5,294,166 units at a price of \$0.60 per unit for total proceeds of \$3,176,500, net proceeds of \$2,803,378. 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 \$0.75 for a period of one year from completion of the financing subject to an early expiry provision. Upon closing, the brokered agent received a cash commission of \$245,782 and 13,896 units (for a total of 8% of the gross proceeds). The agent also received 529,417 common share purchase warrants exercisable for a period of one year at a price of \$0.60 per unit, an administrative fee of \$5,000, a corporate finance fee of 50,000 units, 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.

The fair value of the agent's warrants of \$37,063 was charged to share issue costs with an offsetting amount to contributed surplus. The fair value of the agent's warrants was determined using the Black Scholes model with the following assumptions; dividend yield of nil, expected volatility of 52%, risk-free rate of 4.32% and expected life of one year.

e) Acquisition of Fort Garry Brewing Company Ltd.

Effective October 22, 2007 the Company acquired all the issued common shares of Fort Garry Brewing Company Ltd for cash consideration of \$309,247 and equity consideration of \$2,353,998 equivalent shares of the Company's common stock at a fair market value of \$0.56 per share. In addition the Company paid cash consideration of \$953,726 to redeem the 4% cumulative preferred shares of Fort Garry including their par value and accrued redemption premium and accrued dividends. The transaction costs are \$467,286, which include 100,000 common shares of the Company issued at a fair market value of \$0.46 as part of a corporate finance fee. Refer to Note 3.

f) Preferred Shares

On March 31, 2008, the Company's wholly owned subsidiary, Russell Brewing Company Ltd. ("RBC"), completed a brokered private placement for 68,000 Exchangeable Non-Voting Preferred Shares (the "Exchangeable Shares") at a price of \$10.00 per Exchangeable Share, raising gross proceeds of \$680,000.

The Company had previously announced, on March 5, 2008, its intent to raise up to \$2,500,000 by way of a brokered private placement (the "Offering") under the Province of British Columbia's "Equity Capital Program" (the "Program"). Residents of British Columbia investing in a company registered under the Program are eligible for a tax credit of up to 30% of their investment, and the Program has a limit as to how much capital can be raised in the aggregate by all companies registered under the Program. The Program was closed early due to oversubscription.

RBC will use the proceeds after costs of the Offering for equipment purchases and for general working capital.

The Exchangeable Shares have a 6.0% per annum cumulative dividend, payable semi-annually in accordance with rules under the Program. After five years (the "Exchange Date") the Exchangeable Shares will automatically be exchanged into 16.67 common shares of the Company or earlier if certain events occur, including a change in control of the Company or an insolvency event in RBC. At the Exchange Date, the exchange ratio will be increased for any penalty incurred or for any unpaid dividends.

RBC will incur a penalty if it has not paid all cumulative dividends due and payable as of March 31, 2011 and for any unpaid dividends calculated at each six months thereafter until the Exchange Date. The maximum penalty would result in one additional common share of the Company being exchanged for each Exchangeable Share. The exchange ratio will also increase to account for any unpaid dividends at the Exchange Date such that the additional number of the Company's common shares to be issued is equal to the unpaid dividend amount divided by \$0.60.

The penalty condition requiring RBC to maintain a working capital ratio of 1:1 is now not applicable as the maximum number of Exchangeable Shares were not sold under the Offering.

Canaccord Capital Corporation (the "Agent") acted as agent in the Offering. The Agent received a cash commission equal to 8% of the gross proceeds; 6,800 warrants ("Agent's Warrants") whereby each Agent's Warrant allows the Agent to purchase 16.67 common shares of the Company at a price of \$0.60 per common share until March 31, 2010; a corporate finance fee of \$25,000; and an administration fee of \$5,000.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2008

NOTE 5 - SHARE CAPITAL (CONTINUED)

g) Share Purchase Warrants

At March 31, 2008, the following warrants were outstanding entitling the holders the right to purchase one common share for each warrant held:

Warrants	Weighted Average Exercise Price	Expiry Date
4,167,665	\$ 0.50	October 17, 2008
55,750	\$ 0.30	October 17, 2008
5,358,062	\$ 0.75	July 27, 2008
529,417	\$ 0.60	July 27, 2008
250,000 ⁽¹⁾	\$ 0.65	December 31, 2009
<u>10,360,894</u>	<u>\$ 0.64</u>	

(1) The fair value of 250,000 loan warrants granted pursuant to the loan agreement (Refer to Note 4) is \$30,000. This has been determined using the Black-Scholes Option Pricing Model with the following assumptions: - risk free interest rate of 4.30%; - expected life of 24 months and - expected volatility of 74%.

At March 31, 2008, the following preferential warrants were outstanding entitling the holders the right to purchase 16.67 common shares for each warrant held:

Preferential Warrants	Weighted Average Exercise Price	Expiry Date
6,800 ⁽¹⁾	\$ 10.002	March 31, 2010
<u>6,800</u>	<u>\$ 10.002</u>	

(1) The fair value of 6,800 preferential warrants granted to the agent is \$24,938 (Refer to Note 5.f). This has been charged to preferred share issue costs with an offsetting amount to contributed surplus. The fair value of the agent's warrants was determined using the Black Scholes model with the following assumptions; dividend yield of nil, expected volatility of 119%, risk-free rate of 4.13% and expected life of two years.

NOTE 6 – 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 August 2007, the Company granted incentive stock options in the aggregate of 690,000 common shares to certain directors, officers and consultants, each at a price of \$0.55 per common share for a period of five years pursuant to the Company's Stock Option Plan.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2008

NOTE 6 – STOCK OPTION PLAN (CONTINUED)

A summary of the status of the Company's stock option plan as of March 31, 2008 and June 30, 2007 and changes during the periods then ended is presented below:

	March 31, 2008		June 30, 2007	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning balance	1,475,000	\$ 0.41	750,000	\$ 0.33
Granted	690,000	0.55	760,000	\$ 0.48
Exercised	-	-	-	-
Forfeited/Cancelled	-	-	(35,000)	\$ 0.37
Outstanding, ending balance	2,165,000	\$ 0.45	1,475,000	\$ 0.41

At March 31, 2008, the following stock options are outstanding:

Exercise Price	Outstanding		Exercisable	
	Number	Weighted Average Remaining Life (in years)	Number	Weighted Average Remaining Life (in years)
\$0.33	725,000	3.04	725,000	3.04
\$0.48	750,000	3.56	750,000	3.56
\$0.55	690,000	4.42	450,000	4.42

The fair values of the options granted during the period ended March 31, 2008 and June 30, 2007 were estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	March 30, 2008	June 30, 2007
Risk-free interest rate	4.31%	4.07%
Dividend yield	0%	0%
Expected stock price volatility	196%	200%
Expected life of options	5 years	5 years
Weighted average fair value per share	\$0.52	\$0.47

For the period ended March 31, 2008, the Company recognized stock based compensation in the amount of \$280,800 representing 540,000 stock options granted and vested, which is included in selling, general and administrative expenses.

RUSSELL BREWERIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2008

NOTE 7 - DUE FROM/TO RELATED PARTIES

- a) At March 31, 2008, \$nil is due to (2007: \$21,406) directors and relatives of directors. The amounts owing are unsecured, non interest bearing and have no specific terms for repayment.
- b) During the period ended March 31, 2008 and 2007, the Company incurred the following charges with directors of the Company and relatives of directors which are included in selling, general and administrative expenses:

	March 31, 2008	March 31, 2007
Compensation paid to relatives of directors	\$ 116,949	\$ 86,540
Consulting fees and salaries paid to directors	36,000	40,000
Management fees paid to directors	<u>91,550</u>	<u>141,750</u>
	<u>\$ 244,499</u>	<u>\$ 268,290</u>

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

- c) During the period ended March 31, 2008, directors of the Company purchased nil (2007: 250,000) common shares through private placements.

NOTE 8 – PRIOR PERIOD RESTATEMENT

The prior period adjustment of \$63,237 is to correct errors of recording sales and accounts receivable for the year ended June 30, 2006. The errors caused overstatements of sales of \$63,237 resulting in understatements of net loss of \$63,237 and deficit of \$63,237 for the year ended June 30, 2006, as well as overstatements of accounts receivable of \$63,237 as of June 30, 2006. The result was to increase the reported net loss per share from \$0.03 to \$0.04 for the year ended June 30, 2006. The deficit and accounts receivable as of June 30, 2006 and sales for the year ended 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".

NOTE 9 – COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform with the financial statement presentation adopted for the current year.

NOTE 10 – SUBSEQUENT EVENTS

On May 2, 2008, 220,500 common shares issued and held in escrow were released.