RUSSELL BREWERIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2008 AND 2007

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of
Russell Breweries Inc.

We have audited the consolidated balance sheet of Russell Breweries Inc. as at June 30, 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures as at June 30, 2007 and for the year then ended were audited by another firm of Chartered Accountants which expressed an opinion without reservation on those financial statements in its report dated October 23, 2007.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

October 27, 2008

RUSSELL BREWERIES INC.

CONSOLIDATED BALANCE SHEETS

AS AT JUNE 30, 2008 AND 2007

	2008	2007 (Note 4)
ASSETS		
CURRENT		
Cash and cash equivalents	$ 990,517	$ 166,568
Accounts receivable	760,317	409,606
Inventories (Note 6)	841,113	332,780
Prepaid expenses and deposits	271,608	263,092
	2,863,555	1,172,046
PROPERTY AND EQUIPMENT (Note 7)	3,507,860	811,463
INTANGIBLE ASSETS (Note 8)	1,929,843	1,800
OTHER ASSETS (Note 9)	200,000	200,000
DEFERRED COSTS	–	141,007
	$ 8,501,258	$ 2,326,316
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 1,017,228	$ 430,320
Demand bank loan (Note 10)	–	24,267
Current portion of long-term debt (Note 11)	256,254	50,004
Current portion of capital lease obligations (Note 12)	143,814	142,806
	1,417,296	647,397
LONG-TERM DEBT (Note 11)	1,611,890	67,694
CAPITAL LEASE OBLIGATIONS (Note 12)	266,271	291,794
	3,295,457	1,006,885
SHAREHOLDERS’ EQUITY		
SHARE CAPITAL (Note 13)	7,847,022	2,794,158
EXCHANGEABLE PREFERRED SHARES (Note 14)	518,979	–
CONTRIBUTED SURPLUS (Note 15)	2,661,174	1,315,309
DEFICIT	(5,821,374)	(2,790,036)
	5,205,801	1,319,431
	$ 8,501,258	$ 2,326,316

COMMITMENTS AND CONTINGENCIES (Note 22)

Approved on behalf of the Board of Directors:

/s/ Andrew Harris
Andrew Harris, Director

/s/ Brian Harris
Brian Harris, Director

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007 (Note 4)
REVENUES (Note 23)	$ 5,195,983	$ 1,811,284
LESS: EXCISE TAX AND PROVINCIAL MARK-UP	1,228,522	487,050
NET REVENUES	3,967,461	1,324,234
COST OF SALES	1,633,691	363,277
GROSS MARGIN	2,333,770	960,957
EXPENSES		
Amortization	1,090,326	204,114
Selling, general and administrative (Notes 16 and 20)	4,160,720	1,842,076
	5,251,046	2,046,190
LOSS BEFORE OTHER INCOME (EXPENSE)	(2,917,276)	(1,085,233)
OTHER INCOME (EXPENSE):		
Interest on long-term debt	(176,825)	(51,894)
Interest income	62,763	23,217
	(114,062)	(28,677)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(3,031,338)	(1,113,910)
DEFICIT, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	(2,457,760)	(1,256,383)
RESTATEMENT (Note 4)	(332,276)	(419,743)
DEFICIT, AS RESTATED	(2,790,036)	(1,676,126)
DEFICIT, END OF YEAR	$ (5,821,374)	$ (2,790,036)
LOSS PER SHARE (Note 18)		
Basic and diluted	$ (0.12)	$ (0.08)

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

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007 (Note 4)
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the year	$ (3,031,338)	$ (1,113,910)
Adjusted for non-cash items:		
Amortization	1,090,326	204,114
Accretion of long-term debt	56,345	–
Stock-based compensation expense	734,748	236,027
	(1,149,919)	(673,769)
Net changes in non-cash working capital items:		
Accounts receivable	(70,942)	(269,440)
Prepaid expenses and deposits	44,030	(242,849)
Inventories	(123,149)	(136,852)
Accounts payable and accrued liabilities	78,873	279,561
Due to and from related parties	–	35,435
	(1,221,107)	(1,007,914)
INVESTING ACTIVITIES		
Acquisition of Fort Garry, net of cash acquired	(1,294,542)	–
Deferred costs	–	(144,756)
Purchases of property and equipment	(771,245)	(198,904)
Purchase of other assets	–	(100,000)
	(2,065,787)	(443,660)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares and warrants, net of cash share issuance costs	3,024,307	1,904,793
Proceeds from issuance of exchangeable preferred shares, net of cash share issuance costs	540,375	–
Proceeds from issuance of long-term debt, net of cash debt issuance costs	925,565	–
Repayment of long-term debt	(106,254)	(54,206)
Repayment of capital lease obligations	(248,883)	(59,045)
Repayment of bank demand loan	(24,267)	(39,279)
	4,110,843	1,752,263
INCREASE IN CASH AND CASH EQUIVALENTS	823,949	300,689
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	166,568	(134,121)
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 990,517	$ 166,568
CASH AND CASH EQUIVALENTS CONSIST OF:		
Demand deposits	$ 223,667	$ 56,150
Line of credit	(32,923)	(376,841)
Banker’s acceptance and term deposits	799,773	487,259
	$ 990,517	$ 166,568

SUPPLEMENTAL CASH FLOW INFORMATION (Note 19)

1. NATURE OF OPERATIONS

Russell Breweries Inc. (the "Company") was incorporated under the laws of the Province of British Columbia, Canada on March 23, 2000. The Company produces beer primarily for sale to provincial liquor distribution organizations and entities engaged in the food and beverage industries within Canada. The Company's shares are traded on the TSX Venture Exchange (the "TSX").

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, are presented in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiary Russell Brewing Company Ltd. ("Russell") for the year ended June 30, 2008, and its wholly-owned subsidiary Fort Garry Brewing Company Ltd. ("Fort Garry") from October 23, 2007 to June 30, 2008 (see Note 5). All significant inter-company balances and transactions have been eliminated upon consolidation.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

(b) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes thereto. Significant areas requiring the use of estimates include the recoverability or valuation of accounts receivable, the estimated life of and return rates for returnable containers in inventory, the useful lives of property and equipment, assumptions embodied in the valuation and impairment tests for intangible assets, income tax rates, the recoverability of future income tax assets, stock-based compensation, and the disclosure of contingent liabilities at the date of the financial statements. Actual results may differ from those estimates.

(c) Financial Instruments

(i) Cash and Cash Equivalents

Cash and cash equivalents, when applicable, include cash on account, demand deposits and money market investments with maturities from the date of acquisition of 90 days or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value.

(ii) Short-Term Investments

The Company considers all highly liquid financial instruments purchased with a maturity greater than 90 days but less than one year at the date of purchase to be short-term investments. Short-term investments are classified as available-for-sale and are recorded at their fair values using quoted market prices at the balance sheet date. Unrealized gains or losses on available-for-sale investments are recognized in other comprehensive income. Investment transactions are recognized on the trade date with transaction costs included in the underlying balance.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

(iii) Trade Receivables and Payables

Trade receivables and payables are non-interest bearing and stated at carrying values, which approximate fair values due to their short terms to maturity. Where necessary, trade receivables include allowances for uncollectible amounts.

(iv) Bank Indebtedness

The Company has a bank operating line of credit with a limit of $100,000, which bears interest at prime, matures on August 31, 2010 and is secured by a term deposit of $100,000 (see Note 9).

(v) Long-Term Debt

Long-term debt is initially recorded at total proceeds received less direct issuance costs. Long-term debt is subsequently measured at amortized cost and calculated using the effective interest rate method.

(d) Inventories

Raw materials, supplies, finished goods and work-in-progress are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. The cost of finished goods and work-in-progress includes direct materials, labour and overhead costs. Returnable containers are recorded at cost and are amortized over their estimated useful lives of seven years.

(e) Property and Equipment

(i) Amortization Methods and Rates

Property and equipment is recorded at cost less accumulated amortization. Amortization is recognized on the declining balance basis at the following rates per annum:

Computers	30%
Equipment	30%
Office furniture and equipment	20%
Vehicles	30%
Website	30%

Leasehold improvements are amortized on a straight-line basis over the term of the related lease.

(ii) Asset Impairment

The Company performs impairment tests on its property and equipment when events or changes in circumstances occur that indicate the carrying value of an asset may not be recoverable. Estimated future cash flows are calculated using estimated future prices and operating and capital costs on an undiscounted basis. When the carrying value of the property and equipment exceeds estimated future cash flows, the asset is impaired. Write-downs are recorded to the extent the carrying value exceeds the discounted value of the estimated future cash flows based on the Company's average cost of borrowing.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property and Equipment (continued)

(iii) Repairs and Maintenance

Repairs and maintenance costs are charged to expense as incurred, except when these repairs significantly extend the life of an asset or result in an operating improvement. In these instances, the portion of these repairs relating to the betterment is capitalized as part of property and equipment.

(f) Intangible Assets and Impairment Tests

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. The Company's intangible assets consist of brands and trademarks. Brands and trademarks have an indefinite life and are not amortized. Indefinite life intangible assets are tested for impairment annually or when indicated by events or changes in circumstances, by comparing the fair value of the assets to their carrying value. During the year the Company performed an impairment test for intangible assets and determined no write-down was necessary.

(g) Revenue Recognition

Revenue is recognized when the significant risks and rewards of ownership are transferred to the provincial liquor boards or retail customers and collection of the relevant receivable is probable, which is generally upon delivery of the Company's products. Anticipated product returns are provided for at the time of sale. Net revenue represents gross revenues less applicable excise taxes and fees levied by provincial liquor boards.

(h) Stock-Based Compensation

The Company has a plan for granting stock options to management, directors, employees and consultants of the Company. The Company recognizes compensation expense for this plan under the fair value based method in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this method, the fair value of each option grant, estimated using the Black-Scholes option-pricing model, is recognized as stock-based compensation expense over the vesting period and credited to contributed surplus. Consideration paid on the exercise of stock options and the related carrying value in contributed surplus is recorded as share capital at the time of exercise.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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.

(j) Earnings/Loss per Share

Basic earnings/loss per share is computed by dividing net earnings/loss by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of “in the money” stock options, warrants and agent warrants.

3. ADOPTION OF NEW ACCOUNTING STANDARDS AND DEVELOPMENTS

(a) Accounting Changes

Effective July 1, 2007, the Company adopted the revised CICA 1506, “Accounting Changes”, which requires that: (i) a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information, (ii) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (iii) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

(b) Financial Instruments

Effective July 1, 2007, the Company adopted the three new accounting standards and related amendments to other standards on financial instruments issued by the CICA. Prior periods have not been restated.

(i) CICA 3855, “Financial Instruments – Recognition and Measurement”

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based methods are used to measure the recorded amounts. It also specifies how financial instrument gains and losses are to be presented. Effective July 1, 2007, the Company’s cash equivalents have been classified as held-for-trading and are recorded at fair value on the balance sheet. Fair values are determined directly by reference to published price quotations in an active market. Changes in the fair value of these instruments are reflected in foreign exchange gain/loss in the statement of operations. All other financial instruments will be recorded at cost or amortized cost, subject to impairment reviews. The criteria for assessing an other than temporary impairment remain unchanged. Transaction costs incurred to acquire financial instruments are included in the underlying balance. Regular-way purchases and sales of financial assets are accounted for on the trade date.

3. ADOPTION OF NEW ACCOUNTING STANDARDS AND DEVELOPMENTS (continued)

(b) Financial Instruments (continued)

(ii) CICA 3865, "Hedges"

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG–13, "Hedging Relationships", and CICA 1650, "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company had no hedging relationships as at July 1, 2007. There was no impact on the Company's financial statements upon adoption of this standard.

(iii) CICA 1530, "Comprehensive Income"

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. During the year ended June 30, 2008, there were no items classified as other comprehensive income.

(iv) CICA 3862, "Financial Instruments – Disclosures"

This standard relates to the disclosure of financial instruments. It applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. CICA 3863, "Financial Instruments – Presentation" must be adopted at the same time, replacing CICA 3861, "Financial Instruments – Disclosure and Presentation". The Company will adopt the standard commencing for its interim and annual financial statements for the fiscal year ending June 30, 2009.

(v) CICA 3863, "Financial Instruments – Presentation"

This standard relates to the presentation of financial instruments. It applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. CICA 3862, "Financial Instruments – Presentation" must be adopted at the same time, replacing CICA 3861, "Financial Instruments – Disclosure and Presentation". The Company will adopt the standard commencing for its interim and annual financial statements for the fiscal year ending June 30, 2009.

(c) CICA 1535, "Capital Disclosures"

This standard relates to the disclosure of capital management strategies. It applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Company will adopt the standard commencing for its interim and annual financial statements for the fiscal year ending June 30, 2009.

(d) CICA 3031, "Inventories"

This standard relates to the measurement and disclosure of inventories. It applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Company will adopt the standard commencing for its interim and annual financial statements for the fiscal year ending June 30, 2009. The Company is assessing the impact of the adoption of this standard and has not yet determined its effect on its financial statements.

3. ADOPTION OF NEW ACCOUNTING STANDARDS AND DEVELOPMENTS (continued)

(e) CICA 3064, "Goodwill and Intangible Assets"

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. Early adoption is permitted. The Company expects to adopt the standard commencing for its interim and annual financial statements for the fiscal year ending June 30, 2009. The Company is currently assessing the impact of the adoption of this standard and has not yet determined its effect on its financial statements.

(f) CICA 1400, "General Standards of Financial Statement Presentation"

In May 2007, the CICA issued amended Handbook Section 1400, "General Standards of Financial Statement Presentation". The section provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern. This amended standard applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Company will adopt the standard commencing for its interim and annual financial statements for the fiscal year ending June 30, 2009. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

(g) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that public companies will be required to prepare interim and annual financial statements under International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of adopting IFRS and has not yet determined its effect on its financial statements.

4. RESTATEMENT OF PRIOR PERIOD FIGURES

(a) During the year ended June 30, 2008, the Company determined that it had inappropriately accounted for amortization expense relating to its property and equipment during the years ended June 30, 2007, 2006 and 2005. The comparative financial statements for the year ended June 30, 2007 have been restated to reflect a $92,440 decrease in property and equipment, a $20,697 increase in amortization expense and a $71,743 increase in deficit.

(b) During the year ended June 30, 2008, the Company determined that it had inappropriately recognized $108,164 of compensation cost as stock-based compensation expense during the year ended June 30, 2007 relating to stock options granted during that year. The Company previously recognized the full amount of compensation cost relating to these stock options on their grant date. However, as these stock options had a vesting period of one year, the Company determined it was more appropriate to recognize the compensation costs over the vesting period using the straight-line attribution method. The comparative financial statements for the year ended June 30, 2007 have been restated to reflect $108,164 reductions in contributed surplus and stock-based compensation expense, which is included in selling, general and administrative expense in the statement of operations.

4. RESTATEMENT OF PRIOR PERIOD FIGURES (continued)

(c) During the year ended June 30, 2008, the Company determined that it had inappropriately de-recognized $348,000 of compensation cost during the year ended June 30, 2006 relating to stock options granted and cancelled during that year. As these stock options vested on their grant date, the Company determined it was more appropriate to recognize the related compensation cost as stock-based compensation expense during the year they were granted. The comparative financial statements for the year ended June 30, 2007 have been restated to reflect $348,000 increases in contributed surplus and deficit.

The following table summarizes the restatement of the affected balances:

June 30, 2007	As Previously Reported	Change	As Restated
Statement of Operations:			
Amortization	$ 183,417	$ 20,697	$ 204,114
Selling, general and administrative	1,950,240	(108,164)	1,842,076
Net loss	1,201,377	(87,467)	1,113,910
Loss per share – basic and diluted	0.09	(0.01)	0.08
Deficit, beginning of year	1,256,383	419,743	1,676,126
Deficit, end of year	2,457,760	332,276	2,790,036
Balance Sheet:			
Property and equipment	903,903	(92,440)	811,463
Contributed surplus	1,075,473	239,836	1,315,309
Deficit	$ 2,457,760	$ 332,276	$ 2,790,036

5. ACQUISITION OF FORT GARRY BREWING COMPANY LTD.

Effective October 22, 2007, the Company acquired all the common shares of Fort Garry in exchange for 4,203,566 common shares of the Company and cash consideration of $309,247. In addition, the Company paid cash consideration of $953,726 to redeem the 4% cumulative preferred shares of Fort Garry including their par value, accrued redemption premium and accrued dividends. In connection with the transaction, the Company incurred direct and incremental costs of $431,011, including the issuance of 100,000 common shares of the Company valued at $56,000, which represents the fair value of the shares on the measurement date. The acquisition of Fort Garry has been accounted for using the purchase method, with the Company as the acquirer. The cost of the purchase has been allocated to the assets and liabilities acquired based on their fair values as determined by an independent valuation. Fort Garry's results of operations are included in the consolidated financial statements from October 23, 2007. The comparative figures for the consolidated balance sheet presented as at June 30, 2007 and the comparative figures for the statements of loss and deficit and cash flows for the year ended June 30, 2007 do not include the results of operations of Fort Garry.

A summary of the consideration paid is as follows:

	Amount
Common shares of the Company issued to shareholders of Fort Garry	$ 2,518,318
Cash paid to shareholders of Fort Garry	309,247
Cash paid for preferred shares of Fort Garry	953,726
Transaction costs	431,011
Purchase price	$ 4,212,302

5. ACQUISITION OF FORT GARRY BREWING COMPANY LTD. (continued)

The Company's allocation of the purchase price to the estimated fair values of the assets and liabilities of Fort Garry is as follows:

	Amount
Cash and cash equivalents	$ 202,435
Accounts receivable	279,769
Inventories	349,125
Prepaid expenses and deposits	52,546
Property and equipment	2,862,781
Intangible assets	1,928,043
Future income tax assets	507,698
Total assets acquired	6,182,397
Accounts payable and accrued liabilities	(508,035)
Long-term debt	(918,750)
Capital leases obligations	(35,612)
Future income tax liabilities	(507,698)
Net assets acquired	$ 4,212,302

6. INVENTORIES

	2008	2007
Finished goods and work-in-progress	$ 190,421	$ 22,869
Raw materials	295,825	13,879
Supplies	61,087	42,513
Returnable containers, net of amortization	293,780	253,519
	$ 841,113	$ 332,780

7. PROPERTY AND EQUIPMENT

			2008	2007
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computers	$ 55,418	$ 32,871	$ 22,547	$ 6,698
Equipment	5,679,005	2,788,209	2,890,796	512,452
Leasehold improvements	1,246,809	900,080	346,729	48,622
Office furniture and fixtures	50,915	36,262	14,653	9,152
Vehicles	519,599	288,168	231,431	232,105
Website	4,825	3,121	1,704	2,434
	$7,556,571	$ 4,048,711	$3,507,860	$ 811,463

Capital assets acquired under capital leases are included in equipment with a cost of $257,721 (2007 – $257,721) less accumulated depreciation of $94,516 (2007 – $24,571) and vehicles with a cost of $494,694 (2007 – $419,322) less accumulated depreciation of $274,300 (2007 – $179,847).

8. INTANGIBLE ASSETS

	2008	2007
Brands and trademarks (Note 5)	$ 1,929,843	$ 1,800

9. OTHER ASSETS

	2008	2007
Term deposits	$ 200,000	$ 200,000

A term deposit of $100,000 has been pledged as security for a $100,000 bank line of credit (2007 – $100,000) and another term deposit of $100,000 has been pledged as security for capital leases (2007 – $100,000).

10. DEMAND BANK LOAN

During the year ended June 30, 2008, the Company repaid a demand bank loan. The loan bore interest at the bank's prime rate plus 3% per annum and was secured by 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.

11. LONG-TERM DEBT

	2008	2007
Term loan, bearing variable interest at prime plus 2.5%, repayable in monthly installments of $4,167 plus interest maturing on October 31, 2009, secured by the assets of Russell and a personal guarantee of $62,500 by a director of the Company	$ 67,694	$ 117,698
Term loan, bearing interest at 8.8%, repayable in monthly installments of $18,750 plus interest maturing July 15, 2009, secured by the assets of Fort Garry	862,500	–
Discount loan, bearing interest at 8.5% per annum compounded semi-annually, $1,239,000 due December 31, 2010, secured by the assets of Russell and Fort Garry	937,950	–
	1,868,144	117,698
		-
Less: current portion of long-term debt	(256,254)	(50,004)
	$ 1,611,890	$ 67,694

11. LONG-TERM DEBT (continued)

On December 31, 2007, the Company entered into a loan agreement pursuant to which the lender, a shareholder of the Company, provided to the Company a discounted loan valued at $1,239,000 at maturity. Under the agreement, a notional principal amount of $965,000 was assigned to the loan. In connection with the loan, the lender was entitled to a $25,000 bonus which was deducted from the notional principal amount of $965,000, resulting in net proceeds to the Company of $940,000. The Company also issued 250,000 warrants to the lender, each warrant entitling the lender to purchase one common share of the Company at a price of $0.65 per share for a period of two years expiring on December 31, 2009. Net proceeds of $896,040 and $43,960 were allocated to the loan and warrants, respectively, based on their relative fair values on December 31, 2007. The Company incurred cash debt issue costs of $14,435 which were recorded as a discount against the value allocated to the loan. During the year ended June 30, 2008, the Company recorded interest expense of $56,345 related to the accretion of the discounted value of the loan, which has been recorded as interest on long-term debt in the statement of operations.

The fair values of the warrants issued in connection with the loan were computed using the Black-Scholes option-pricing model. The Company may repay the loan at any time without penalty by paying the notional principal amount of $965,000 plus accumulated interest. As at June 30, 2008, the fair value of this early settlement option was estimated to be $nil.

Excluding finance fees and discounting, the Company's future estimated principal repayments of long-term debt are as follows:

Fiscal Year	Amount
2009	$ 256,524
2010	673,940
2011	965,000
	$ 1,895,464

12. CAPITAL LEASE OBLIGATIONS

The Company finances certain property and equipment using capital leases which bear interest at rates ranging from 1% to 28% and expire on various dates through July 2013. Estimated future minimum lease payments under these capital leases are as follows:

	Amount
Fiscal Year:	
2009	$ 193,836
2010	182,440
2011	107,775
2012	37,550
2013	1,610
Total minimum lease payments	523,211
Less: amount representing interest	(113,126)
Present value of minimum lease payments	410,085
Less: current portion of capital lease obligations	(143,814)
	$ 266,271

13. SHARE CAPITAL

(a) Authorized Share Capital

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

(b) Issued and Outstanding Share Capital

	Common Shares		Amount
Balance, June 30, 2006	10,022,135	$	1,371,365
Issued during the year:			
For cash:			
Private placement, net of share issue costs (ii)	5,000,000		841,500
Exercise of warrants	1,216,085		551,293
For corporate finance services (ii)	100,000		30,000
Balance, June 30, 2007	16,338,220		2,794,158
Issued during the year:			
For cash:			
Private placement, net of share issue costs (i)	5,294,166		1,923,697
Exercise of warrants	660,500		198,150
For acquisition of Fort Garry (Note 5)	4,203,568		2,518,318
For services:			
Shares issued for corporate finance services (i)	63,896		38,338
Shares issued for consulting services (Note 5)	100,000		56,000
Transferred from contributed surplus upon exercise of warrants	–		318,361
Balance, June 30, 2008	26,660,350	$	7,847,022

(i) On July 27, 2007, the Company closed a brokered private placement of 5,294,166 units at a price of $0.60 per unit for gross proceeds of $3,176,500. 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 $0.75 for a period of one year expiring July 27, 2008, subject to an early expiry provision. Values of $2,423,077 and $753,423 were assigned to the common shares and warrants, respectively, based on their relative fair values at the closing date of the private placement. In connection with the private placement, the Company issued 63,896 units as a commission and corporate finance fee with terms similar to those issued under the private placement. Values of $38,338 and $11,921 were assigned to the common shares and warrants, respectively, based on their fair values at the closing date of the private placement. The Company also issued as a commission 529,417 common share purchase warrants exercisable for a period of one year at a price of $0.60 per share. These warrants were assigned a value of $98,779, based on their fair value at the closing date of the private placement. The Company paid cash commissions of $245,782 and incurred other cash share issuance costs of $104,560. The fair values of the warrants issued in connection with this private placement were computed using the Black-Scholes option-pricing model.

13. SHARE CAPITAL (continued)

(b) Issued and Outstanding Share Capital (continued)

(ii) 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 consisted 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 units, and was reimbursed for reasonable expenses related to the private placement. The fair value of the agent's warrants of $482,000 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 option-pricing model.

(c) Stock Options

Under the Company's stock option plan (the "Plan"), the Company's board of directors is authorized to grant stock options to directors, officers, consultants and employees of the Company not to exceed 10% of the issued and outstanding common shares of the Company from time to time. Stock options granted under the Plan are exercisable over a period not exceeding five years from the date granted. Exercise prices may not be less than the market price of the common shares on the date of grant less applicable discounts permitted by the TSX.

Stock option activity since June 30, 2006 is presented below:

	June 30, 2008			June 30, 2007		
	Number of Shares		Weighted Average Exercise Price	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	1,475,000	$	0.41	750,000	$	0.33
Granted	1,690,000		0.46	760,000		0.48
Exercised	–		–	–		–
Forfeited	(560,000)		0.55	(35,000)		0.37
Outstanding, ending of year	2,605,000	$	0.41	1,475,000	$	0.41

At June 30, 2008, the following stock options are outstanding:

	Options Outstanding			Options Exercisable	
Exercise Price $	Number of Shares	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price $	Number of Shares	Weighted Average Exercise Price $
0.33	715,000	2.79	0.33	715,000	0.33
0.40	1,000,000	4.97	0.40	1,000,000	0.40
0.48	750,000	3.31	0.48	750,000	0.48
0.55	140,000	4.17	0.55	140,000	0.55
	2,605,000	3.85	0.41	2,605,000	0.41

13. SHARE CAPITAL (continued)

(d) Warrants

Warrant activity since June 30, 2006 is presented below:

	June 30, 2008			June 30, 2007		
	Number of Shares		Weighted Average Exercise Price	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	4,883,915	$	0.47	–	$	–
Granted	6,137,479		0.75	6,100,000		0.47
Exercised	(660,500)		0.30	(1,216,085)		0.45
Outstanding, ending of year	10,360,894	$	0.64	4,883,915	$	0.47

At June 30, 2008, the following warrants were outstanding entitling the holders the right to purchase one common share for each warrant held:

Number of 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		0.65	December 31, 2009
10,360,894	$	0.64	

Between June 30, 2008 and October 24, 2008, 10,110,894 warrants exercisable at prices from $0.30 to $0.75 expired unexercised.

(e) Agent Warrants

At June 30, 2008, the following agent warrants were outstanding entitling the holders the right to purchase 16.67 common shares at a price of $10.00 for each warrant held (see Note 14):

Number of Warrants	Number of Shares		Weighted Average Exercise Price per Warrant		Weighted Average Exercise Price per Share	Expiry Date
6,800	113,333	$	10.00	$	0.60	March 31, 2010

(f) Escrow Shares

During the year ended June 30, 2008, the 441,000 common shares of the Company held in escrow at June 30, 2007 were released.

14. EXCHANGEABLE PREFERRED SHARES

On March 31, 2008, the Company's wholly-owned subsidiary, Russell Brewing Company Ltd. ("Russell"), completed a brokered private placement for 68,000 exchangeable, non-voting preferred shares (the "Exchangeable Shares") at a price of $10 per share for gross proceeds of $680,000 under the Equity Capital Program of the Province of British Columbia (the "Program"). In connection with the private placement, the Company issued 6,800 agent warrants allowing the holder to purchase 16.67 common shares of the Company per warrant at a price of $0.60 per common share until March 31, 2010. These agent warrants were assigned a fair value of $21,396 which was determined using the Black-Scholes option-pricing model. The Company also paid a commission of $54,400 and incurred other cash issuance costs of $60,000.

The Exchangeable Shares have a 6% per annum cumulative dividend, payable semi-annually, in accordance with rules under the Program. After five years (the "Exchange Date"), each Exchangeable Share 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 Russell. At the Exchange Date, the exchange ratio will be increased for any penalty incurred or for any unpaid dividends.

Russell 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 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.

15. CONTRIBUTED SURPLUS

	2008	2007 (Note 4)
Balance, beginning of year	$ 1,315,309	$ 597,282
Stock-based compensation expense (Note 16)	734,748	236,027
Relative fair value of warrants issued in private placements	753,423	–
Fair value of warrants issued for share issue costs	110,699	482,000
Fair value of agent warrants issued for share issue costs	21,396	–
Fair value of warrants issued with long-term debt	43,960	–
Amount transferred to share capital upon exercise of warrants	(318,361)	–
Balance, end of year	$ 2,661,174	$ 1,315,309

16. STOCK-BASED COMPENSATION

During the year ended June 30, 2008, the Company granted 1,690,000 (2007 – 760,000) stock options to directors, officers and consultants of the Company. The weighted average fair value of each option granted was $0.39 (2007 – $0.47) calculated using the Black-Scholes option-pricing model at the date of each grant using the following weighted average assumptions:

	2008	2007
Expected option lives	5 years	5 years
Risk-free interest rate	3.9%	4.07%
Expected dividend yield	0%	0%
Expected stock price volatility	128%	200%

During the year ended June 30, 2008, the Company recognized $734,748 (2007 – $236,027) of compensation cost which is included in selling, general and administrative expenses.

17. INCOME TAXES

In assessing the realization of the Company's future income tax assets, management considers whether it is more likely than not that some portion of all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of 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 future tax assets considered realizable could change materially in the near term based on future taxable income during the carry-forward period.

(a) Future Income Tax Assets and Liabilities

The significant components of the Company's future income tax assets and liabilities are as follows:

	2008	2007
Future income tax assets (liabilities):		
Non-capital losses carried forward	$ 1,783,000	$ 592,000
Tax value of property and equipment in excess of book value	183,000	138,000
Book value of intangible assets in excess of tax value	(429,000)	–
Share issue costs available to be deducted for tax purposes	110,000	–
Accounting reserves not deducted for tax purposes	48,000	–
Other	–	(4,000)
	1,695,000	726,000
Valuation allowance	(1,695,000)	(726,000)
Net future income tax assets	$ –	$ –

17. INCOME TAXES (continued)

(b) Non-Capital Losses Carried Forward and Expiration Dates

As at June 30, 2008, the Company has non-capital losses of approximately $6,724,000 (2007: $1,735,000) which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities and expiring as follows in the fiscal years ending:

Year of Expiry	Amount
2009	$ 1,219,000
2010	801,000
2014	199,000
2015	555,000
2026	243,000
2027	2,099,000
2028	1,608,000
	$ 6,724,000

(c) Reconciliation of Tax Rates

The Company is subject to Canadian federal and provincial taxes at an approximate rate of 31% (2007 – 34.12%). The reconciliation of the provision for income taxes at the statutory rate compared to the Company's income tax expense as reported is as follows:

	2008	2007
Loss before income taxes	$ 3,031,338	$ 1,113,910
Statutory tax rate	31%	34.12%
Expected income tax recovery at statutory rates	940,000	380,000
Permanent differences	(227,771)	(96,000)
Change in valuation allowance	(969,000)	(284,000)
Changes in tax rates	21,780	–
Changes in estimates and other	234,991	–
Future income tax recovery	$ –	$ –

18. LOSS PER SHARE

The weighted average number of shares outstanding used in the computation of loss per share was 24,537,000 (2007 – 13,938,000). Outstanding stock options, warrants and agent warrants have not been considered in the computation of diluted loss per share as the result is anti-dilutive.

19. SUPPLEMENTAL CASH FLOW INFORMATION

		2008		2007
Cash paid for:				
Interest	$	120,480	$	51,894
Income taxes		–		–
Non-cash investing and financing activities:				
Capital lease obligations recognized for assets under capital lease		188,756		343,123
Common shares issued for services		94,338		30,000
Commons shares issued on acquisition of Fort Garry	$	2,518,318	$	–

20. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2008, the Company incurred salaries and wages expense of $165,016 to relatives of directors of the Company (2007 – $121,340). The transactions were in the normal course of operations and have been recorded at their exchange amounts, which is the consideration agreed upon by the related parties.

21. FINANCIAL INSTRUMENTS AND RISKS

(a) Fair Values of Financial Instruments

The carrying values of current financial assets and liabilities are reasonable estimates of fair values due to the relatively short periods to maturity and the commercial terms of these instruments. The carrying amount of long-term financial liabilities at June 30, 2008 is considered to be a reasonable estimate of fair value based on current market rates for similar financial instruments.

(b) Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company maintains substantially all of its cash and cash equivalents and term deposits classified as other assets in the balance sheet with major financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. As at June 30, 2008, the Company has significant accounts receivable from one major customer totalling $483,160. The Company manages credit risk for trade and other receivables through established credit monitoring activities.

(c) Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities.

(d) Interest Rate Price Risk

The Company's cash equivalents are subject to interest rate price risk. The Company's interest rate risk management policy is to purchase highly liquid investments with a term to maturity of three months or less on the date of purchase, when the instrument is not required as security for another financial obligation. Certain of the Company's long-term debt instruments and capital lease obligations are subject to interest rate price risk as they carry fixed rates of interest.

(e) Interest Rate Cash Flow Risk

Certain of the Company's long-term debt instruments are subject to interest rate price risk as they carry variable rates of interest.

22. COMMITMENTS AND CONTINGENCIES

(a) The Company's future minimum operating lease payments for premises and vehicles are as follows:

Fiscal Year	Amount
2009	$ 265,607
2010	68,473
2011	25,840
2012	21,334
	$ 381,254

(b) As at June 30, 2008, the Company had issued a general excise bond of $55,000 in favour of the Minister of National Revenue of Canada.

23. MAJOR CUSTOMER

During the year ended June 30, 2008, the Company had sales of $2,150,700 to the Manitoba Liquor Control Commission which accounted for 41% of its gross revenues.