RUSSELL BREWERIES INC.
Management Discussion and Analysis
For the year ended June 30, 2011

The following discussion and analysis prepared as of October 28, 2011 should be read in conjunction with the audited consolidated financial statements and related notes and Management Discussion and Analysis and for the fiscal years ended June 30, 2011 and 2010.

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 subsidiaries, Russell Brewing Company Ltd. located in Surrey, BC, and Fort Garry Brewing Company Ltd. located in Winnipeg, Manitoba, Russell Breweries Inc. ("the Company") operates two craft breweries producing premium quality beers for pubs, restaurants and liquor stores. The Company acquired Fort Garry Brewing Company Ltd. ("Fort Garry") on October 22, 2007. Fort Garry is Manitoba's largest brewer and distributor of premium quality beers. The Company's operations include production facilities in Surrey, BC and Winnipeg, Manitoba, corporate offices in Surrey, BC, storage facilities, brewing equipment, and delivery and sales vehicles. The breweries main product lines are Russell Cream Ale, Russell Pale Ale, Russell Honey Blonde Ale, Russell Extra Special Lager, Russell Lemon Ale, Russell Lime Lager, Rocky Mountain Pilsner, Fort Garry Dark Ale, Fort Garry Pale Ale, Fort Garry Premium Light, Fort Garry Red and Stone Cold Lager.

MANAGEMENT

Board of Directors

Brian Harris	
Andrew Harris	
Richard Shier	Independent
Paul Robertson	Independent
Robert Murray	Independent

Senior Officers

Brian Harris	Chief Executive Officer
Andrew Harris	Chief Operating Officer
Gary Liu	Chief Financial Officer

On November 9, 2010, the Company appointed Gary Liu as the Chief Financial Officer of the Company to replace Andrew Harris. Andrew Harris remains a Director and Chief Operating Officer of the Company. On June 10, 2011, the Company announced that Mr. John Morgan resigned as a director of the Company for personal reasons. On October 25, 2011, Mr. Robert Murray was appointed a director of the Company to replace John Morgan.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS

The Company acquired Fort Garry Brewing Company Ltd. ("Fort Garry") on October 22, 2007 - see Acquisition of Fort Garry contained in the next section.

On February 19, 2008 the Company launched the sale of cans, comprising 6 x 355 ml aluminum cans, into select private liquor stores located in British Columbia in the lower mainland, Whistler, Vancouver Island, Bowen Island and the Sunshine Coast.

On March 31, 2008, the Company's 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. RBC used the net cash proceeds of $540,375, after cash issuance costs totaling $139,625, for equipment purchases and for general working capital – see Liquidity and Resources: Financing.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS (continued)

On May 9, 2008, RBC expanded distribution to Winnipeg, Manitoba. Draught products available include Russell Cream Ale, Russell Honey Blonde Ale and Russell Lemon Ale. Packaged products available for retail through the MLCC stores include 355ml six-pack cans of Russell Cream Ale and Russell Honey Blonde.

On July 15, 2008, the Company acquired additional 7,000 sq ft of office and warehouse space in Surrey BC. The new facility, located at 81Ave and 130 Street will be used for storage of finished goods and as a logistics and distribution center for British Colombia. The new space will enable the Company to expand its capacity from 16,000 hectolitres to 25,000 hectolitres. This new space will be perfect for the Company with excellent loading bays and road access. The net result will be increased savings in our logistics department through improved efficiencies.

On August 5, 2008, the Company commenced shipping 6x355 ml cans of its award-winning Cream Ale to the Government operated BC liquor stores throughout British Columbia. On January 13, 2009, the Company launched a 12 can pack – a collection of the four signature beers. Russell Premium Craft Collection pack includes: Extra Special Lager, Pale Ale, Honey Blonde Ale and our award winning Cream Ale. On May 5, 2009, the Company launched a new series of small-batch limited release beers. The first in the series is a classic India Pale Ale named - Russell IP'eh!

On June 8, 2009 the Company closed a rights offering, whereby 6,665,087 units were issued at a price of $0.15 per unit for gross proceeds of $999,763. Each unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at an exercise price of $0.25 per common share at any time commencing June 9, 2010 and ending June 8, 2011 – see Liquidity and Resources: Financing.

On June 15, 2009, the Company launched six pack bottles of new Cactus Lime Lager for immediate distribution in the provinces of British Columbia and Manitoba. On June 22, 2009, the Company launched bottles of its very popular summer draught beer, Russell Lemon Ale.

On September 3, 2009, the Company commenced distribution in Alberta with the introduction of the award winning Russell Cream Ale and Cactus Lime Lager in all Cactus Club Cafe's as well as distribution of the Cactus Lime Lager in Liquor Depot and Liquor Barn outlets.

On September 8, 2009, the Company was awarded sixth place on Business in Vancouver's ("BIV") top 100 fastest – growing companies for 2009. On September 25, 2009 , the Company was awarded three medals at Canadian Brewing Awards Gala in Toronto for brands from its regional breweries - Russell Brewing Company ("RBC") in British Columbia and Fort Garry Brewing ("Fort Garry") in Manitoba. A silver medal was awarded to RBC in the North American Style Blonde/Golden Ale category for the Russell Honey Blonde Ale and a bronze medal awarded in the North American Style Lager category for its Rocky Mountain Pilsner. A silver medal was awarded to Fort Garry in the North American Dark Lager category for Fort Garry Rouge. Judging of the awards was registered by the Beer Judge Certification Program (BJCP) which certifies and ranks beer judges through examination and monitoring processes.

On October 6, 2009, the Company signed a five year beer sponsorship agreement with Global Spectrum Facility Management, L.P., the agent on behalf of the City of Abbotsford and the operator and manager of the Abbotsford Entertainment and Sports Centre.

On December 17, 2009, the Company began shipping 6 pack bottles of Chambar Ale as part of its co-packing agreement with Chambar Restaurant to produce a Belgian style beer for the take home market. Chambar Ale is now available in 6 pack bottles in Vancouver through select restaurants and boutique liquor retailers.

On April 10, 2010, the Company claimed two medals at the Brewers Association (BA) World Beer Cup 2010, a global beer competition that evaluates beers from around the world and recognizes the most outstanding beers being produced in the world today. The Company received a bronze medal in the English-Style India Pale Ale beer style category for its Russell IP'EH! plus a bronze medal in the Scottish-Style Pale Ale category for its Wee Angry Scottish Ale.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS (continued)

World Beer Cup 2010 winners were selected by an international panel of 179 beer judges from 27 countries. An impressive field of 3,401 entries from 642 breweries in 44 countries made up the competition. More than 3,800 breweries in 100 countries were invited to compete.

In October 2010, the Company claimed a silver medal for the Russell Brewmaster Series beer, 'A Wee Angry Scotch Ale' at the 8th annual Canadian Brewing Awards (CBA) in Toronto.

On October 5, 2010, the Company announced financings of $1,000,000 in the form of convertible debentures and $1,000,000 in the form of equity units consisting of common shares and warrants to purchase common shares of the Company. In December, the Company completed the financing with gross proceeds totaling $1,218,880 – see Liquidity and Resources: Financing.

On January 10, 2011, the Company released Blood Alley Bitter, the most recent beer in the Russell Brewmaster Series. Blood Alley Bitter is now available in British Columbia in kegs and 650ml bottles through private liquor stores and select pubs and restaurants. Blood Alley Bitter is an Extra Special Bitter (ESB) style of beer named after a notorious cobblestone laneway in Vancouver’s Gastown district. This well balanced beer has rich, robust roasted malt flavours and a crisp bitter finish.

On March 23, 2011, the Company announced that its products would soon be available in the Spokane area in the USA by way of a distribution partnership with King Beverage Inc, one of the largest beer distributors in the Pacific North West.

As of June 30, 2011, the Company was awaiting the final approvals from the U.S. government Alcohol and Tobacco Tax and Trade Bureau (“TTB”) before it could commence printing bottles and labels and begin distribution of products to the United States.

SELECTED INFORMATION

The following table summarizes certain financial information of the Company for the periods indicated below:

Selected Annual Information	**Year Ended 30-Jun-11**	**Year Ended 30-June-10**	**Year Ended 30-Jun-09**
	Audited	Audited	Audited and restated
	$	$	$
Income Statement Data			
Gross Revenue	7,745,228	8,224,740	7,189,052
Net Sales (after excise tax and provincial mark-up)	5,861,792	6,206,354	5,574,021
Earnings (loss) before interest and other income, taxes, depreciation and amortization	(716,841)	(746,156)	(883,934)
Total income (loss) from continuing operations	(1,524,618)	(1,365,064)	(1,637,901)
Operating income (loss) per share	(0.04)	(0.04)	(0.06)
Net income (loss)	(1,524,618)	(1,365,064)	(1,637,901)
Basic and diluted earning (loss) per share	(0.04)	(0.04)	(0.06)
Balance Sheet Data			
Total assets	7,672,875	8,184,462	9,185,273
Total long term financial liabilities	1,576,723	441,592	1,730,528
Cash dividends declared per share	Nil	Nil	Nil

RUSSELL BREWERIES INC.
Management Discussion and Analysis
For the year ended June 30, 2011

PERFORMANCE AND RESULTS OF OPERATIONS

The Three Months Ended June 30, 2011 (“Q4 2011F”)

Net Sales for Q4 2011F were $1,364,139 down $236,663 or 14.78% compared to $1,600,802 for the period ended June 30, 2010 (“Q4 2010F”). The net sales decrease is primarily a result of $322,951 decrease in gross sales due to a price war experienced in Manitoba which is partially recovered by British Columbia sales increase of $148,645 where the packaged products increased by 30% that caused $49,960 increase in provincial mark-ups with a higher tax rate compared to Q4 2010F.

Although the sales was down, the gross margin for Q4 2011F was up $362,937 or 107.25% to $701,354 compared to $338,417 for Q4 2010F. The gross margin percentage of Q4 2011F was up 30.27% to 51.41% compared to 21.14% for Q4 2010F. The increase in gross margin is primarily a result of sales increase in higher margin supper premium brands in British Columbia and the elimination of significant adjusting production cost for inventory in transit compared to Q4 2010F.

Selling, general and administration expense for Q4 2011F were $1,046,141 up $116,817 or 12.57% compared to $929,324 for Q4 2010F. The increase in these expenses is primarily a result of stock based compensation increase of $14,246 to $14,246 from $nil, refundable container recovery decrease of $82,063 to ($36,595) from ($118,658), director fee increase of $83,000 to $83,000 from $nil, and management fee increase of $113,150 to $139,452 from $26,311 due to year end accrual of $83,000 for director fees and $82,250 for management fees as annual compensation. Certain categories showed a continued cost cut, a strong improvement in efficiency compared to Q4 2010F. The major cost reductions are advertising and promotion decrease of $254,218 to $167,476 from $421,694, freight and administrative labour decrease of $27,808 to $227,725 from $255,533, and repairs and maintenance of $25,947 to $12,418 from $38,365. The continued decrease across these expenses is a result of reorganizing the Company’s sales and logistic departments initiated in 2011F.

Other income (expense) items for Q4 2011F were resulting a net expense up $138,589 to ($141,922) compared to ($3,333) for Q4 2010F. The increase in these expenses is primarily a result of $102,070 increase in year end accrual for interest on long-term debt and convertible debentures in connection with the private placement closed in December 2010.

The Company had a net loss of $603,313 for Q4 2011F compared to the net loss of $653,725 for Q4 2010F. The decrease in net loss is primarily a result of an increase of $362,937 in gross margin which is offset by an increase of $116,817 in selling, general and administration expense and an increase of $138,589 in other expenses.

The Year Ended June 30, 2011 (“2011F YTD”)

Net Sales for 2011F YTD were $5,861,792 down $344,562 or 5.55% compared to $6,206,354 for the year ended June 30, 2010 (“2010F YTD”). The net sales decrease is primarily a result of $427,345 decrease in gross sales due to a price war experienced in Manitoba which is partially recovered by British Columbia sales increase in packaged products by 30% that caused $121,466 increase in provincial mark-ups with a higher tax rate compared to 2010F.

Although sales was down, the gross margin for 2011F YTD was up $20,344 or 0.73% to $2,793,869 compared to $2,773,525 for 2010F YTD. The gross margin percentage of 2011F YTD was up 2.97% to 47.66% compared to 44.69% for 2010F YTD. The increase in gross margin is primarily a result of sales increase in higher margin with super premium brands in British Columbia of $200,000, which is offset by an increase of $150,000 in production labour.

PERFORMANCE AND RESULTS OF OPERATIONS (continued)

The Year Ended June 30, 2011 ("2011F YTD")(continued)

Selling, general and administration expense for 2011F YTD decreased $8,971 or 0.25% to $3,510,710 compared to $3,519,681 for 2010F YTD. The decrease was primarily a result of advertising and promotion decrease of $399,855 to $728,566 from $1,128,421 including the expiry of a three year BC Lions sponsorship contract for $150,000, promotion event decrease of $100,000, production design decrease of $20,000 and meal decrease of $20,000, freight and administrative labour decrease of $113,691 to $826,923 from $940,614, repairs and maintenance of $30,794 to $64,560 from $95,354, and shop supplies of $9,350 to $43,666 from $53,016, which was offset by rent and utilities increase of $119,037 to $557,311 from $438,274, for additional 6,000 square feet production space lease commenced in December 2010, management fees increase of $128,650 to $258,060 from $129,410 based on the renewed management contract approved by the board of directors, for CEO and COO management fees increased to $10,000 each per month from $5,500 per month as well as accounting fees for CFO increased to $8,333 from $5,500 per month, director fees increase of $83,000 to $83,000 from $nil, refundable container increase of $82,063 to a recovery of $36,595 from a recovery of $118,658, stock based compensation increase of $54,246 to $54,246 from $nil, consulting fees increase of $17,545 to $19,092 from $1,547, and office expense increase of $38,272 to $148,284 from $110,012. The continued decrease across major expenses is a result of reorganizing the Company's sales and logistic departments initiate in 2011F.

Other income (expense) items for 2011F were resulting a net expense up $209,375 or 157.69% to ($342,152) compared to ($132,777) for 2010F. The increase in these expenses is primarily a result of $109,845 increase in interest on long-term debt and convertible debentures in connection with private placement closed in December 2010, and $40,223 increase in interest on a demand loan which was paid off during 2011F.

The Company had a net loss of $1,524,618 for 2011F YTD compared to the net loss restated of $1,365,064 for 2010F YTD. The increase in net loss is primarily a result of the increase in debt financing with an interest expense increase of $150,068 to $324,185 from $174,117 and other financing cost increase of $35,965 to $35,965 from $nil.

Summary of Quarterly Results

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

Fiscal Year Quarter	**2011F Q4**	**2011F Q3**	**2011F Q2**	**2011F Q1**	**2010F Q4**	**2010F Q3**	**2010F Q2**	**2010F Q1**
						Restated	Restated	Restated
	$	$	$	$	$	$	$	$
Gross revenues								
Net revenues	1,364,139	1,490,373	1,419,581	1,587,699	1,600,802	1,385,239	1,386,353	1,833,960
EBITDA[1]	(344,787)	(159,253)	(318,669)	105,868	(590,907)	(226,743)	(96,201)	167,695
Net income (loss)	(603,313)	(321,661)	(514,806)	(84,838)	(653,725)	(415,421)	(300,351)	4,433
Net earnings (loss) per share	(0.01)	(0.01)	(0.01)	(0.00)	(0.02)	(0.01)	(0.01)	0.00

Q4 2011F net sales were $1,364,139 down $126,234 or 8.47% decrease compared to the net sales of $1,490,373 for Q3 2011F due to price war experienced in Manitoba. Q4 2011F to Q3 2010F net loss were up $281,652 or 87.56% increase. The increase in net loss was primarily a result of director fee increase of $83,000 to $83,000 from $nil, management fee increase of $97,249 to $139,452 from $42,203 due to yearend accruals, and $68,495 increase in interest on long-term debt and convertible debentures due to the debt and equity financing closed in December 2010.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

At June 30, 2011, the Company had net working capital deficit of $429,962. The Company has $29,101 cash and $100,000 of restricted cash securing $100,000 of bank indebtedness. Liabilities include $144,875 bank indebtedness, $2,090,406 accounts payable and accrued liabilities, $18,519 interest payable on convertible debentures, $1,126,887 long-term debts, $518,386 convertible debentures and $113,541 capital lease obligations. The Company has declared $122,400 dividends to its subsidiary's exchangeable preferred shareholders. The Company has not paid any dividends to its common share holders.

Funds on hand are low due to seasonality, continued loss from operation and lack of financing. The Company need additional capital to fund its short term operating losses and planned non discretionary capital expenditures for the next twelve months. The Company is seeking additional cash in the equity and/or debt markets as the need arises. There is no guarantee that the Company will be able to raise additional equity or debt financing or generate cash flow from operations in the future.

Cash Flow

The Three Months Ended June 30, 2011 ("Q4 2011F")

Net cash used in operating activities in Q4 2011F was $297,923 compared to $69,975 cash used in Q4 2010F, an increase in use of $227,948 due to $604,613 more cash used in accounts payable as a result of certain raw material purchases being paid on delivery and prompt payment to the provincial liquor distribution board, $159,488 more cash used in inventory, $93,985 more cash used in prepaid and deposits, which is offset by $284,415 cash provided by prompt collection from provincial liquor distribution board, $122,479 more cash provided from related parties, and a decrease use of cash of $231,295 in net loss after adjusting for items not affecting cash.

No cash used in Q4 2011F and Q4 2010F for purchasing property and equipment decreased.

During Q4 2011F, the Company repaid $22,322 of long-term debts, and $15,226 of capital lease obligations, obtained $141,475 cash from issuance of common shares, net of share issue cost, and $144,875 from bank indebtedness compared to repayment of $56,251 of long-term debts and $41,236 of capital lease obligations and cash provided for $125,000 from demand loan and $136,534 from bank indebtedness in Q4 2010F.

The Year Ended June 30, 2011 ("2011F YTD")

Net cash used in operating activities in 2011F YTD was $621,099 compared to $277,497 cash used in 2010F YTD, an increase in use of $343,602 due to an increase of $31,728 cash used in net loss after adjusting for items not affecting cash, an increase of $294,567 cash used in accounts receivable, an increase of $164,353 cash used in prepaid expenses and deposits, an increase of $405,009 cash used in accounts payable, which is offset by a decrease of $353,954 cash used in inventory, and a decrease of $158,437 cash used in due to related parties.

Cash used in 2011F YTD for purchasing property and equipment decreased $3,637 to $38,259 from $41,896 used in 2010F YTD. Capital assets for $106,982 were purchased under capital lease obligations in 2011F YTD, an increase of $106,982, compared to $nil purchased in 2010F YTD. The Company redeemed $100,000 term deposit in connection with a buy out of a capital lease for $46,612. As at June 30, 2011, no term deposit has been pledged as security for capital leases.

During 2011F YTD, the Company received $805,934 from issuance of common shares, $666,675 from issuance of convertible debentures, $100,000 from issuance of long-term debts, $250,000 from a demand loan, and $8,341 from bank indebtedness compared to $125,000 received from demand loan and $136,534 received from bank indebtedness in 2010F YTD. The Company repaid $775,750 of long-term debts, $132,678 of capital lease obligations, and $375,000 of a demand loan during 2011F YTD compared to $242,691 of long-term debts and $144,364 of capital lease obligations repaid in 2010F YTD.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financing

(a) On June 18, 2010, the Company entered into a loan facility agreement with a primary lender under which the lender and its partners may advance up to $500,000 to the Company at their discretion. The purpose of the loan is to finance amounts receivable from the British Columbia Liquor Distribution Branch. Amounts advanced bear interest at the lesser of 2% of the average loan balance during the month and 2% of the proceeds advanced under the agreement. The loan is repayable on demand and is secured by a general security agreement over the assets of the Company and by specific assignment of a joint signing account. During the year ended June 30, 2011, $250,000 (2010 – $125,000) was advanced under this agreement. On November 16, 2010, the Company repaid $375,000.

(b) On October 5, 2010, the Company's subsidiary Fort Garry Brewing Company Ltd. accepted an offer of $100,000 pre-authorized working capital loan from Business Development Bank of Canada ("BDC"). The BDC Loan, bearing interest at floating base rate plus a variance of 1% maturing August 15, 2015, is secured by the assets of Fort Garry and supported by a guarantee made by two directors of the Company. In return for the guarantee, the Company is allowed to issue 250,000 common shares of the Company as bonus shares for a deemed value of $0.08 per share for a total value of $20,000, which was recorded as a discount against the value allocated to the loan. During the year ended June 30, 2011, the Company recorded interest expense of $4,941 (2010 - $nil) 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.

(c) On December 31, 2010, the Company entered into an amendment and extension loan agreement to the loan agreement described in the June 30, 2011 financial statement note 8(c), pursuant to which the lender extended the maturity date to July 31, 2012 and reduced the loan amount to $738,600 from $1,239,000, provided that the Company repay the loan in the amount of $619,000 on January 1, 2011 (paid). Pursuant to the amended loan agreement, the lender provides to the Company a new loan valued at maturity in the amount of $738,600. A discounted value or loan advance amount of $620,000 is calculated based on a 10% per annum interest rate, calculated semi-annually, with interest payable on maturity resulting in a total loan value at maturity of $738,600. In consideration of the lender agreeing to amend and extend the loan, the lender will also earn a bonus of $22,500 to be included in the loan amount. The term of the loan is nineteen months. Russell may repay the loan at any time without penalty by paying the discounted loan advance amount of $620,000 together with accumulated interest. The loan is guaranteed by Russell Brewing Company Ltd. and Fort Garry Brewing Company Ltd., both wholly-owned subsidiaries of the Company.

(d) During the year ended June 30, 2011, the Company completed, in three tranches, a private placement of units (the "Unit Offering") and a private placement of convertible debentures (the "Debenture Offering") (together, the "Offerings"). Under the Unit Offering, the Company issued 12,730,000 units (the "Units"), at a price of $0.08 per Unit, for aggregate gross proceeds of $1,018,400. Each Unit is comprised of one common share and one common share purchase warrant (a "Warrant"). Each Warrant is exercisable for two years after the issuance of the Units to acquire one common share at an exercise price of $0.15 per common share. Under the Debenture Offering, the Company issued convertible debentures (the "Convertible Debentures") in the aggregate principal amount of $740,750. The Convertible Debentures are convertible into common shares at a price of $0.15 per common share for a two-year period from the date of issue. The Convertible Debentures bear interest at 10% per annum, payable quarterly in arrears.

Canaccord Genuity Corp. ("Canaccord") acted as agent for the Offerings and as consideration for its services received a cash commission equal to 10% of the gross proceeds from the Offerings and 2,120,200 warrants (the "Agent's Warrants") equal to 12% of the number of Units and 12% of the number of common shares underlying the Convertible Debentures sold pursuant to the Offerings. Each Agent's Warrant entitles the holder, on exercise, to acquire one unit on the same terms as the Units for a price of $0.08 per unit for a period of 24 months from date of issue. The Company also issued 625,000 common shares with a fair value of $56,250 to the Agent as a corporate finance fee. Other share issue costs were $96,607.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financing (continued)

The following table summarizes the use of proceeds from debt and equity financing for the year ended June 30, 2011:

Expenditures	Funds Received	Use of Proceeds	Actual Use	Variances F(U)
	$	$	$	$
Advance received from a demand loan[a]	250,000			
Proceeds from accepting BDC loan[b]	100,00			
Net proceeds from issuance of 12,730,000 common shares at $0.08 per Unit[d]	852,521			
Net proceeds from issuance of convertible debentures in the aggregate principal amount of $740,750[d]	620,088			
Repayment of demand loan[a]		375,000	375,000	-
Repayment of long-term debt[c]		697,000	619,000	78,000
Marketing and promotion		350,000	350,000	-
Improvement of production		250,000	38,000	212,000
Working capital		150,000	440,000	(290,000)
Total	1,822,609	1,822,000	1,822,000	-

During the year ended June 30, 2011, the Company received $350,000 from debt financing and total gross proceeds of $1,759,150 from equity financing for net proceeds of $1,472,609 after deducting direct expenses of the private placements at $175,915 for finder's fee and $110,626 for share issue costs. The total of $1,822,000 cash available were used to pay off the $350,000 demand loan as planned, and to repay long-term debt for the negotiated amount of $619,000 resulting $78,000 favorable variance to be redirected to working capital. $350,000 was used for marketing and promotion expenditure as planned. The $212,000 under use in improvement of production is a result of financing a planned cash purchase of bottle filler and labeling machine through a capital lease instrument so that the unused funds were redirected to working capital. The Company used $150,000 cash in working capital as planned and was able to use the total of $290,000 redirected funds to pay $120,000 rent and utilities for additional 6000 square feet production space and to pay off $170,000 trade payables.

RELATED PARTIES

The Company entered into related party contracts as follows: with Brian Harris for management fees in his capacity as CEO of the Company; with Andrew Harris for management fees in his capacity as COO of the Company; with Mt. Pacific Financial Corp., a company controlled by Gary Liu for accounting services in his capacity as CFO of the Company.

(a) During the year ended June 30, 2011, the Company incurred management fees of $128,625 (2010 – $65,000) to the CEO and $128,625 (2010 – $63,600) to the COO of the Company. As at June 30, 2011, the Company owed $20,000 to the CEO and the COO, which is non-interest bearing, unsecured and due on demand.

(b) During the year ended June 30, 2011, the Company incurred director fees of $83,000 to directors of the Company (2010 – $nil). As at June 30, 2011, the Company owed $83,000 to the directors, which is non-interest bearing, unsecured and due on demand.

(c) During the year ended June 30, 2011, the Company incurred accounting fees of $107,798 to a company controlled by the CFO of the Company (2010 – $nil). As at June 30, 2011, the Company owed $20,720 to this company, which is non-interest bearing, unsecured and due on demand.

(d) During the year ended June 30, 2011, the Company incurred salaries and wages expense of $158,074 to relatives of directors of the Company (2010 – $156,018) and salaries of $29,125 to a director of the Company (2010 – $48,000). As at June 30, 2011, the Company owed $1,710 to a relative of directors of the Company, which is non-interest bearing, unsecured and due on demand.

    These 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.

(e) As at June 30, 2011, the Company is owed $15,402 (2010 – $45,392) from the CEO and COO of the Company. The amounts are non-interest bearing, unsecured and due on demand.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ materially from those estimates and assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Returnable Containers

Returnable containers are recorded at cost and are amortized over their estimated useful lives. There is uncertainty in these estimates in that actual experience may vary from these estimates.

Capital Assets

Capital assets are originally recorded at cost. Property acquired under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of the fair value of the property or equipment and the present value of those lease payments. Depreciation is calculated on the straight line basis. There is uncertainty in these estimates in that actual experience may vary from these estimates.

Future Income Tax Asset

The Company has not recorded an income tax asset. The Company has determined it has not met the “more likely than not test “required by the CICA Handbook section 3465 “Income Taxes” for these assets to be recorded.

CHANGES IN ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three-month period September 30, 2011, which includes presentation of its comparative results for fiscal 2011 under IFRS. In order to prepare for the changeover to IFRS, the Company developed an IFRS conversion plan comprised of three phases:

Phase	Description and Status
PRELIMINARY PLANNING AND SCOPING	The IFRS conversion plan includes consideration of the impacts of IFRS on the Company's financial statements, internal control over financial reporting, information systems and business activities such as foreign operations, if any, compensation metrics, and personnel and training requirements. Based on Management's preliminary review of IFRS and current Company processes, minimal impact is expected on information systems and compensation metrics.
DETAILED IMPACT ASSESSMENT	This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company's financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company's conversion to IFRS and evaluation of the impact on outstanding operational elements such as debt covenants and budgeting. The Company expects to complete this phase by October 31, 2011.
IMPLEMENTATION	This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company's quarterly and annual consolidated financial statements and related notes effective September 30, 2011, however continued progress on the IFRS conversion plan is necessary before the Company is able to describe or quantify those effects.

STOCK-BASED COMPENSATION PLANS

The Company recognizes compensation expense on options granted to employees, consultants and directors under its option plan. On October 18, 2010, the Company granted 100,000 stock options to a director of the Company pursuant to its stock option plan, exercisable for up to five years at a price of $0.10 per share.

On November 18, 2010, the Company amended the exercise price of 1,872,500 options held by employees, directors and officers of the Company to a new price of $0.10. The re-pricing of options held by insiders of the Company is approved by shareholders of the Company, excluding votes cast by common shares beneficially owned by insiders of the Company and associates of such insiders, at the annual and special general meeting of the Company held on December 16, 2010.

Subsequent to the year ended June 30, 2011, 550,000 stock options exercisable at $0.10 expired unexercised.

OUTSTANDING SHARE DATA

The Authorized share capital consists of unlimited common shares without par value.

Outstanding Share Data	Number of Common Shares	Exercise Price per Common Share	Expiry Dates
Issued and outstanding as at October 28, 2011	46,680,437	N/A	N/A
Stock Options	1,077,500	$0.10	August 29, 2012 – October 18, 2015
Conversion of preferred shares[1]	1,405,560	$0.60	March 31, 2013
Conversion of convertible debenture[2]	4,938,333	$0.15	November 4 – December 23, 2012
Warrants	12,730,000	$0.15	November 4 – December 23, 2012
Agent unit warrants	2,120,200	$0.08	November 4 – December 23, 2012
Agent warrants	2,120,200	$0.15	Two years from issuance of the Unit
Fully Diluted as at October 27, 2011	71,072,230	N/A	N/A

(1) After five years (the "Exchange Date") the 68,000 preferred 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 Russell. 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. At the Exchange Date, 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. As at June 30, 2011, the unpaid dividend amount was $122,400. The Company did not pay the dividend due and payable as of March 31, 2011. The maximum penalty may result in an aggregate of 68,000 additional common shares of the Company being issued at the Exchange Date.

(2) The Company issued convertible debentures (the "Convertible Debentures") in the aggregate principal amount of $740,750. The Convertible Debentures are convertible into common shares at a price of $0.15 per common share for a two-year period from the date of issue.

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 are held by the BCLDB, the MLCC, and AGLC, management believes exposure to credit risk is limited.

Competition

The Company considers its main competitors to be other participants in the Canadian brewing industry, which includes imported beer and specialty and value priced brands brewed by both small regional brewers and the national brewers. Existing regional breweries are increasing their production capacities and marketing programs. National brewers are aggressively promoting their own specialty and value brands as well as premium brands. The Company also anticipates increasing competition as new brewers enter markets in which the Company currently operates.

The principal competitive factors affecting the market for the Company's products include quality and taste, packaging, advertising and promotional support, brand recognition and price. There can be no assurance that the Company will be able to compete successfully in this category against current and future competitors based on these and other factors. The Company competes with a variety of domestic and international brewers, many of whom have substantially greater financial, production, distribution and marketing resources. The Company anticipates increased competition in the premium beer category from the major domestic brewers, each of whom has introduced and is marketing premium-priced products. The large domestic brewers dominate the domestic beer market and the Company expects that certain of these companies may seek further participation in the premium beer market through the acquisition of equity positions in, or the formation of, distribution alliances with other brewers.

Increased competition could result in price reductions, reduced profit margins and loss of market share, all of which could have a material adverse effect on the Company's operations. The Company's products also compete generally with other alcoholic beverages.

Government Regulation

The Company's business is regulated by federal, provincial and municipal laws and regulations regarding such matters as licensing requirements, trade and pricing practices, permitted and required labeling, advertising, promotion and marketing practices, relationships with distributors and related matters. Failure on the part of the Company to comply with federal, provincial or municipal laws and regulations could result in the loss, revocation or suspension of the Company's licenses, permits or approvals and could have a material adverse effect on the Company's business. The Company believes that it has obtained all regulatory permits and licences necessary to operate its business where the Company's products are currently being produced and distributed. In addition, changes to taxes, environmental regulations or any other laws or regulations which affect the Company's products or their production, handling or distribution could have a material adverse effect on the Company's operations.

Trends in Consumer Preferences and Attitudes

The domestic premium beer market has grown dramatically over the past decade. The Company believes that one factor in such growth has been consumer demand. No assurance can be given however that consumer demand for these products will continue in the future. The Company's success also depends upon a number of factors related to the level of discretionary consumer spending, such as the general state of the economy, tax laws and consumer confidence in future economic conditions.

RISKS AND UNCERTAINTIES (continued)

Protection of Intellectual Property Rights; Risk of Third Party Claims of Infringement

The Company considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork, to be of considerable value and critical to its business. The Company relies on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by the Company to protect its intellectual property rights will preclude competitors from developing similar brand names or promotional materials. While the Company believes that its proprietary rights do not infringe upon those third parties, it possesses no assurances of such a situation. The Company has applied for registration of the following trademarks: Russell, Fort Garry and Rock Mountain.

Dependence on Key Personnel

The Company's success depends to a significant degree upon the continuing contributions of key personnel, and on its ability to attract and retain qualified management, sales, production and marketing personnel. The loss of any of such persons or the failure to recruit additional key personnel in a timely manner, could adversely affect the Company. The Company does not maintain any key man life insurance on any of its personnel.

Operating Hazards

The Company's operations are subject to certain hazards and liability risks faced by all brewers, such as the potential contamination of ingredients or products and equipment defects. While the Company has not experienced a contamination problem in its products, the occurrence of such a problem could result in a costly product recall and serious damage to the Company's reputation for product quality. Although the Company maintains insurance against certain risks under various general liability and product liability insurance policies, there can be no assurance that the Company's insurance will be adequate or that claims resulting from such incidents will be accepted as filed.

Trade Regulations

The 1994 North America Free Trade Agreement ("NAFTA") among Canada, Mexico and the United States expanded the 1989 Free Trade Agreement between Canada and the United States. To date, NAFTA has had no material effect on the Company's business or operations. However, the adoption of new trade regulations or future trade disputes that result in retaliatory practices or increased tariffs between the United States and Canada could adversely affect the Company's business.

Proprietary Rights

Although the formulas for the Company's beers are proprietary trade secrets of the Company, there can be no assurance that others will not develop beers of the same or similar tastes and qualities as the Company's beers.

Seasonal Nature of Business
The Company's business is seasonal to a certain extent. The second and third financial quarters are generally stronger than the first and fourth quarters.

RISKS AND UNCERTAINTIES (continued)

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate in order to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

ADDITIONAL INFORMATION

For additional information relating to Russell Breweries Inc. please review SEDAR website at www.sedar.com and the Company's website at www.russellbeer.com or to contact Brian Harris, Russell Breweries Inc., 13018 80th Avenue, Surrey, BC V3W 3B2 ,Telephone: (604) 599-1190 Facsimile: (604) 599-1048.