RUSSELL BREWERIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010

MANNING ELLIOTT
CHARTERED ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Russell Breweries Inc.

We have audited the accompanying consolidated financial statements of Russell Breweries Inc. which comprise the consolidated balance sheets as at June 30, 2011 and 2010, and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained based on our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Russell Breweries Inc. as at June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Russell Breweries Inc. to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

October 26, 2011

RUSSELL BREWERIES INC.

CONSOLIDATED BALANCE SHEETS

AS AT JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 29,101**	$ 42,552
Accounts receivable	**1,011,127**	961,274
Inventories (Note 3)	**1,065,791**	1,211,903
Prepaid expenses and deposits	**132,338**	117,690
Due from related parties (Note 17(f))	**15,402**	45,392
	2,253,759	2,378,811
PROPERTY AND EQUIPMENT (Note 4)	**3,383,848**	3,652,166
INTANGIBLE ASSETS (Note 5)	**1,935,268**	1,933,653
DEFERRED FINANCING COSTS	**-**	19,832
RESTRICTED TERM DEPOSITS (Note 6)	**100,000**	200,000
	$ 7,672,875	$ 8,184,462
LIABILITIES		
CURRENT		
Bank indebtedness (Note 19(c))	**$ 144,875**	$ 136,534
Accounts payable and accrued liabilities	**2,090,406**	2,113,826
Dividend payable (Note 12)	**122,400**	81,600
Demand loan (Note 7)	**-**	125,000
Interest payable on convertible debentures	**18,519**	-
Due to related parties	**125,430**	-
Current portion of long-term debt (Note 8)	**138,000**	1,314,209
Current portion of capital lease obligations (Note 9)	**44,091**	97,395
	2,683,721	3,868,564
LONG-TERM DEBT (Note 8)	**988,887**	399,750
CAPITAL LEASE OBLIGATIONS (Note 9)	**69,450**	41,842
CONVERTIBLE DEBENTURES (Note 10)	**518,387**	-
	4,260,445	4,310,156
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 11)	**9,036,272**	8,321,132
SHARES ALLOTED BUT UNISSUED (Note 8(b) and Note 12)	**25,440**	-
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 10)	**86,484**	-
EXCHANGEABLE PREFERRED SHARES (Note 12)	**518,979**	518,979
CONTRIBUTED SURPLUS (Note 13)	**3,278,779**	3,002,301
DEFICIT	**(9,533,524)**	(7,968,106)
	3,412,430	3,874,306
	$ 7,672,875	$ 8,184,462

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Note 19)

Approved on behalf of the Board of Directors:

/s/ Richard Shier
Richard Shier, Director

/s/ Brian Harris
Brian Harris, Director

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

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
REVENUES (Note 21)	**$ 7,745,228**	$ 8,224,740
LESS: EXCISE TAX AND PROVINCIAL MARK-UP	**1,883,436**	2,018,386
NET REVENUES	**5,861,792**	6,206,354
COST OF SALES	**3,067,923**	3,432,829
GROSS MARGIN	**2,793,869**	2,773,525
EXPENSES		
Amortization	**465,625**	486,131
Selling, general and administrative (Notes 11(c) and 17(a))	**3,510,710**	3,519,681
	3,976,335	4,005,812
LOSS BEFORE OTHER INCOME (EXPENSE)	**(1,182,466)**	(1,232,287)
OTHER INCOME (EXPENSE)		
Interest on demand loan	**(40,223)**	-
Interest on long-term debt and convertible debt	**(283,962)**	(174,117)
Other expense	**(35,965)**	-
Interest income (expense)	**2,315**	(724)
Other income	**15,683**	34,231
Gain on settlement of accounts payable	**-**	7,833
	(342,152)	(132,777)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	**(1,524,618)**	(1,365,064)
DEFICIT AS RESTATED, BEGINNING OF YEAR	**(7,968,106)**	(6,562,242)
DIVIDENDS (Note 12)	**(40,800)**	(40,800)
DEFICIT, END OF YEAR	**$ (9,533,524)**	$ (7,968,106)
LOSS PER SHARE (Note 15)		
Basic and diluted	**$ (0.04)**	$ (0.04)

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

		2011		2010
CASH FLOWS PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net loss for the year	**$**	**(1,524,618)**	$	(1,365,064)
Adjusted for non-cash items:				
Amortization		**465,625**		486,131
Accretion of long-term debt		**108,678**		108,185
Accretion of convertible debentures		**69,634**		–
Accrued interest on convertible debentures		**18,519**		–
Penalty for unpaid interest on exchangeable preferred shares		**5,440**		–
Stock-based compensation expense		**54,246**		–
		(802,476)		(770,748)
Net changes in non-cash working capital items:				
Accounts receivable		**(49,853)**		244,714
Prepaid expenses and deposits		**(14,648)**		149,705
Inventories		**94,046**		(259,908)
Deferred financing costs		**19,832**		(19,832)
Due to and from related parties		**155,420**		(3,017)
Accounts payable and accrued liabilities		**(23,420)**		381,589
		(621,099)		(277,497)
INVESTING ACTIVITIES				
Purchases of property and equipment		**(38,259)**		(41,896)
Purchases of intangible assets		**(1,615)**		(1,150)
Redemption of restricted term deposits		**100,000**		–
		60,126		(43,046)
FINANCING ACTIVITIES				
Proceeds from issuance of common shares, net of share issuance costs		**852,521**		–
Proceeds from issuance of convertible debentures, net of debt issuance costs		**620,088**		–
Proceeds from issuance of long-term debt		**100,000**		–
Proceeds from demand loan		**250,000**		125,000
Proceeds from bank indebtedness		**8,341**		136,534
Repayment of long-term debt		**(775,750)**		(242,691)
Repayment of capital lease obligations		**(132,678)**		(144,364)
Repayment of demand loan		**(375,000)**		-
		547,522		(125,521)
DECREASE IN CASH AND CASH EQUIVALENTS		**(13,451)**		(446,064)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**42,552**		488,616
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**29,101**	$	42,552
CASH AND CASH EQUIVALENTS CONSIST OF:				
Demand deposits	**$**	**29,101**	$	42,552

SUPPLEMENTAL CASH FLOW INFORMATION (Note 16)

1. NATURE OF OPERATIONS AND GOING CONCERN

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.V”).

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at June 30, 2011, the Company had a working capital deficiency of $429,962 and accumulated losses since inception of $9,533,524. These factors raise significant doubt about the Company’s ability to continue as a going concern. The continued operation of the Company is dependent on its ability to obtain financing sufficient to generate profitable operations in the future. There is no guarantee that the Company will be able to raise this additional financing.

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 subsidiaries Russell Brewing Company Ltd. (“Russell”) and Fort Garry Brewing Company Ltd. (“Fort Garry”). All inter-company balances and transactions have been eliminated upon consolidation.

(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, disclosures of contingent liabilities and fair value measurements. Actual results may differ from those estimates.

(c) Financial Instruments

(i) Cash and Cash Equivalents

Cash and cash equivalents, when applicable, is designated as held for trading 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) 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. Trade receivables are designated as loans and receivables and trade payables are designated as other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

(iii) Bank Indebtedness

Bank indebtedness is designated as held-for-trading and is recorded at fair value with gains and losses recorded in the statement of operations.

(iv) Demand Loan

Demand loan is designated as other financial liabilities and initially recorded at total proceeds received less direct issuance costs. Demand loan is subsequently measured at amortized cost calculated using the effective interest rate method.

(v) Long-Term Debt

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

(vi) Convertible Debentures

Convertible debentures are considered a compound financial instrument and are designated as other financial liabilities. The Company follows the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component is determined by deducting the fair value of the liability component from the face principal amount. Direct issuance costs are allocated to each component based on these relative values. The liability component is subsequently measured at amortized cost and accreted to the face principal amount over the estimated term of the convertible debentures using the effective interest rate method.

(vii) Derivative Instruments

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value. Unrealized gains and losses on derivatives held for trading are recorded in net earnings. Fair values for derivative instruments held for trading are determined using valuation techniques. These valuations use assumptions based on market conditions existing at the balance sheet date. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property and Equipment

(i) Amortization Methods and Rates

Property and equipment is recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the useful lives of the assets which are estimated as follows:

Computer hardware and software	2-4	Years
Equipment	7-25	Years
Office furniture and fixtures	5	Years
Vehicles	10	Years
Website	3	Years

Leasehold improvements are amortized using the straight-line method over the estimated 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.

(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 events or changes in circumstances indicate impairment, 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 impairment charge 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, persuasive evidence of an arrangement exists, the price is fixed or determinable 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Stock-Based Compensation

The Company has a plan for granting stock options to management, directors, employees and consultants as described in Note 11(c). The Company recognizes compensation expense under this plan using the fair value method in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this method, the fair value of stock options granted to employees is recognized as stock-based compensation expense over the vesting period and credited to contributed surplus. Stock options granted to non-employees are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to non-employees is recognized as stock-based compensation expense from the date of grant to the reporting date and credited to contributed surplus. Upon the exercise of stock options, consideration paid and the fair value amounts previously credited to contributed surplus are recorded as share capital. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted.

(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 substantively enacted tax rates which apply when these differences are expected to 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, agent warrants and agent unit options.

(k) Financing Costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Debt issue costs are offset against the related financial instrument on the date of issuance. Costs relating to financial transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations. Costs incurred in connection with the modification of long-term debt are expensed as incurred.

(l) Leases

Leases are classified as either capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value at the beginning of such lease. Assets recorded under capital leases are amortized on a straight line basis over the estimated useful lives of the respective assets on commencement of use of the related assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Recent Accounting Pronouncements

Recent accounting pronouncements that have been announced but are not yet effective for the Company are as follows:

(i) CICA 1582, "Business Combinations", CICA 1601, "Consolidated Financial Statements" and CICA 1602, "Non-Controlling Interests"

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements."

Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The Company is currently assessing the impact of adopting these standards and has not yet determined the effect on its consolidated financial statements.

(ii) CICA 3251, "Equity"

In August 2009, Section 3251 Equity was issued in response to issuing Section 1602 Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602. The adoption of this section is not expected to have a material impact on the Company's consolidated financial statements.

(iii) CICA 1625, "Comprehensive Revaluation of Assets and Liabilities"

In August 2009, Section 1625 Comprehensive Revaluation of Assets and Liabilities was issued for consistency with new Section 1582 Business Combinations. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. The adoption of this section is not expected to have a material impact on the Company's consolidated financial statements

(iv) 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 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 consolidated financial statements.

3. INVENTORIES

		2011		2010
Finished goods and work-in-progress	$	**333,026**	$	396,682
Raw materials		**478,745**		521,788
Supplies		**59,707**		63,911
Returnable containers, net of amortization		**194,313**		229,522
	$	**1,065,791**	$	1,211,903

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Computers	**$ 69,285**	**$ 66,810**	**$ 2,475**	$ 2,309
Equipment	**5,891,266**	**2,830,218**	**3,061,048**	3,237,913
Leasehold improvements	**1,307,826**	**1,221,166**	**86,660**	131,634
Office furniture and fixtures	**62,794**	**53,284**	**9,510**	4,110
Vehicles	**519,599**	**295,444**	**224,155**	276,115
Website	**5,975**	**5,975**	**-**	85
	$7,856,745	**$ 4,472,897**	**$3,383,848**	$ 3,652,166

Equipment includes assets under capital leases with a cost of $387,636 (2010 – $280,654) and accumulated amortization of $63,627 (2010 – $46,821). Vehicles includes assets under capital leases with a cost of $494,694 (2010 – $494,694) and accumulated amortization of $262,043 (2010 – $212,574) (see Note 4).

5. INTANGIBLE ASSETS

		2011		2010
Brands and trademarks	$	**1,935,268**	$	1,933,653

6. RESTRICTED TERM DEPOSITS

A term deposit of $100,000 has been pledged as security for a $100,000 bank line of credit (2010 – $100,000). During the year ended June 30, 2011, the Company redeemed the $100,000 term deposit in connection with a buy out of a capital lease. As at June 30, 2011, no term deposit has been pledged as security for capital leases (2010 – $100,000).

7. DEMAND LOAN

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 22, 2010, the Company repaid $375,000. Total interest incurred during the year was $40,223 (2010 - $nil). Other transaction costs during the year was $11,250 (2010 – $nil) loss on extinguishment of the demand loan, which was recorded as other expense in the statement of operations. As at June 30, 2011, the demand loan has an outstanding balance of $nil (2010 – $125,000).

8. LONG-TERM DEBT

		2011		2010
Term bank loan, bearing interest at a floating base rate plus a variance of 1%, repayable in monthly installments of $18,750 plus interest prior to October 2010 and thereafter repayable in monthly installments of $9,750 plus interest maturing November 15, 2014, secured by the assets of Fort Garry (a)	**$**	**399,750**	$	543,750
Term bank loan, bearing interest at floating base rate plus a variance of 1%, repayable in monthly installments of $1,750 plus interest maturing August 15, 2015, secured by the assets of Fort Garry (b)		**72,191**		–
Discount loan, bearing interest at 10% per annum compounded semi-annually, $738,600 due July 31, 2012, secured by the assets of Russell and Fort Garry (c)		**654,946**		1,170,209
		1,126,887		1,713,959
Less: current portion of long-term debt		**(138,000)**		(1,314,209)
Long-term portion of long-term debt	**$**	**988,887**	$	399,750

(a) On December 8, 2008, the bank made an amendment to the existing term loan in accordance with the request of the Company for six month principal postponement. Pursuant to the amendment, the remaining loan amount on December 8, 2008 of $787,500 was to be repaid by 42 consecutive monthly principal installments of $18,750 each commencing June 15, 2009 and ending November 15, 2012. The bank also granted a reduction of the interest rate on the term loan by 1%. With the exception of the amendments agreed, all terms and conditions of the term loan remain unchanged. On September 22, 2010, the bank made a further amendment to the existing term loan in accordance with the request of the Company. Pursuant to the amendment, the remaining loan amount is to be repaid by 50 consecutive monthly principal installments of $9,750 each commencing October 15, 2010 and ending November 15, 2014.

(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 an estimated fair 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, 2007, the Company entered into a loan agreement pursuant to which the lender, a shareholder of the Company, provided a discounted loan to the Company 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.

8. LONG-TERM DEBT (continued)

(c) 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, 2011, the fair value of this early settlement option was estimated to be $nil.

On December 31, 2010, the Company entered into an amendment and extension loan agreement to the loan agreement dated December 31, 2007, 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.

During the year ended June 30, 2011, the Company recorded interest expense of $103,737 (2010 - $108,185) 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.

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

Fiscal Year		**Amount**
2012	**$**	**138,000**
2013		**758,000**
2014		**138,000**
2015		**69,750**
2016		**3,250**
	$	**1,107,000**

9. CAPITAL LEASE OBLIGATIONS

The Company finances certain property and equipment using capital leases which bear interest at rates ranging from 9% to 36% and expire on various dates through March 2015. Estimated future minimum lease payments under these capital leases are as follows:

Fiscal Year:		**Amount**
2012	**$**	**53,413**
2013		**34,010**
2014		**21,756**
2015		**22,397**
Total minimum lease payments		**131,576**
Less: amount representing interest		**(18,035)**
Net minimum lease payments		**113,541**
Less: current portion of capital lease obligations		**(44,091)**
Long-term portion of capital lease obligations	**$**	**69,450**

10. CONVERTIBLE DEBENTURES

	2011	2010
Convertible debentures with a face value of $531,000, bearing interest at 10%, unsecured and due on November 4, 2012	$ 372,028	$ –
Convertible debentures with a face value of $158,000, bearing interest at 10%, unsecured and due on December 3, 2012	110,606	–
Convertible debentures with a face value of $51,750, bearing interest at 10%, unsecured and due on December 24, 2012	35,753	–
Liability component of convertible debentures	518,387	–
Less: current portion	–	–
Long-term portion	$ 518,387	$ –

During the year ended June 30, 2011, the Company completed, in three tranches, a private placement of convertible debentures (the "Debenture Offering" – see Note 11(b)). 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.

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of $119,691 was determined by deducting the fair value of the liability component of $621,059 from the principal amount of $740,750. The fair value of the liability component was computed as the present value of future principal and interest payments discounted at a rate of 20% per annum.

The following tables summarize the changes in the liability and equity components of the convertible debentures during the year ended June 30, 2011:

Liability component		2011
Balance, beginning of year	$	–
Gross proceeds from issuance		740,750
Amount allocated to the equity component		(119,691)
Direct issuance costs allocated to the liability component		(172,306)
Accretion		69,634
Balance, end of year		518,387
Less: current portion		–
Long-term portion, end of year	$	518,387

Equity component		2011
Balance, beginning of year	$	–
Gross proceeds from issuance		740,750
Amount allocated to the liability component		(621,059)
Direct issuance costs allocated to the equity component		(33,207)
Balance, end of year	$	86,484

The liability components of the convertible debentures are recorded at amortized cost and accreted to the principal amount over the estimated term of the convertible debentures using an effective interest rate of 20%.

10. CONVERTIBLE DEBENTURES (continued)

Excluding finance fees and discounting, the Company's future estimated principal repayments of convertible debentures are as follows:

Fiscal Year		**Amount**
2012	**$**	**–**
2013		**740,750**
	$	**740,750**

11. SHARE CAPITAL

(a) Authorized Share Capital

The Company's authorized share capital consists of an unlimited number of common shares without par value.

(b) Issued and Outstanding Share Capital

	Common Shares		Amount
Balance, June 30, 2009, and 2010	**33,325,437**	**$**	**8,321,132**
Issued during the year			
For cash			
Private placement, net of share issue costs	**12,730,000**		**658,890**
For services			
Shares issued for corporate finance services	**625,000**		**56,250**
Balance, June 30, 2011	**46,680,437**	**$**	**9,036,272**

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"). The first tranche of each of the Offerings closed on November 4, 2010, the second tranche of each of the Offerings closed on December 3, 2010, and the third tranche closed on December 23, 2010.

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.

11. SHARE CAPITAL (continued)

(b) Issued and Outstanding Share Capital (continued)

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. These agent warrants were assigned a fair value of $161,063 for the Units and $61,169 for the Convertible Debentures which was determined using the Black-Scholes option-pricing model at the date of issuance using the following assumptions: expected warrant life of 2 years; risk-free interest rate of from 1.39% to 2.25%; expected dividend yield of 0% and expected stock price volatility of from 114% to 114% (see Note 13). 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.

(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 Venture Exchange. Vesting terms are determined by the board of directors on the date of grant.

On October 18, 2010, the Company granted 100,000 incentive stock options to a director exercisable at $0.10 per share expiring after five years of the grant date, pursuant to its stock option plan. The fair value of each option granted was $0.06 calculated using the Black-Scholes option-pricing model at the date of grant using the following assumptions: expected option life for 5 years; risk-free interest rate of 1.97%; expected dividend yield of 0% and expected stock price volatility of 87%. During the year ended June 30, 2011, the Company recognized compensation cost of $6,000 (2010 - $nil) as selling, general and administrative expense.

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 $0.10. The original weighted average exercise price of these options was $0.42. The re-pricing of options held by insiders of the Company was 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 in 2010. The incremental weighted average fair value of each option re-priced was $0.026 calculated using the Black-Scholes option-pricing model at the date of re-pricing using the following assumptions: expected option life of from 0.32 to 2.63 years; risk-free interest rate of 1.03% to 1.84%; expected dividend yield of 0% and expected stock price volatility of from 109% to 123%. During the year ended June 30, 2011, the Company recognized incremental compensation cost of $48,246 (2010 - $nil) as selling general and administrative expense.

11. SHARE CAPITAL (continued)

(c) Stock Options (continued)

Stock option activity during the years ended June 30, 2011 and 2010 is presented below:

	2011			2010		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	**2,245,000**	**$**	**0.41**	2,605,000	$	0.41
Granted	**100,000**		**0.10**	-		-
Cancelled for re-pricing	**(1,872,500)**		**0.42**	-		-
Re-priced options	**1,872,500**		**0.10**	-		-
Forfeited	**(717,500)**		**0.23**	(360,000)		0.41
Outstanding, ending of year	**1,627,500**	**$**	**0.10**	2,245,000	$	0.41

At June 30, 2011, 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 $**
0.10	**550,000**	**0.31**	**0.10**	**550,000**	**0.10**
0.10	**140,000**	**1.17**	**0.10**	**140,000**	**0.10**
0.10	**837,500**	**1.97**	**0.10**	**837,500**	**0.10**
0.10	**100,000**	**4.30**	**0.10**	**100,000**	**0.10**
	1,627,500	**1.48**	**0.10**	**1,627,500**	**0.10**

(d) Warrants

Warrant activity during the years ended June 30, 2011 and 2010 is presented below:

	2011			2010		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	**6,665,087**	**$**	**0.25**	6,915,087	$	0.26
Granted	**12,730,000**		**0.15**	–		–
Expired	**(6,665,087)**		**0.25**	(250,000)		0.65
Outstanding, ending of year	**12,730,000**	**$**	**0.15**	6,665,087	$	0.25

11. SHARE CAPITAL (continued)

(d) Warrants (continued)

At June 30, 2011, 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
10,402,500	**$**	**0.15**	**November 4, 2012**
827,500		**0.15**	**December 3, 2012**
1,500,000		**0.15**	**December 23, 2012**
12,730,000	**$**	**0.15**	

(e) Agent Unit Warrants

Agent unit warrants activity during the years ended June 30, 2011 and 2010 is presented below:

	2011			2010		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	**–**	**$**	**–**	1,666,271	$	0.15
Granted	**2,120,200**		**0.08**	–		–
Expired	**–**		**–**	(1,666,271)		0.15
Outstanding, ending of year	**2,120,200**	**$**	**0.08**	–	$	–

At June 30, 2011, the following agent unit warrants were outstanding entitling the holders the right to purchase one unit, consisting of one common and one common share purchase warrant exercisable for two years after issuance at an exercise price of $0.15 per share, for each warrant held:

Number of Warrants		Weighted Average Exercise Price	Expiry Date
1,673,100	**$**	**0.08**	**November 4, 2012**
225,700		**0.08**	**December 3, 2012**
221,400		**0.08**	**December 23, 2012**
2,120,200	**$**	**0.08**	

12. 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. As at June 30, 2011, the unpaid dividend amount was $122,400 (2010 - $81,600). 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. As at June 30, 2011, the penalty shares have been recorded as shares allotted but unissued. The shares were valued at $5,440 measured using the market price of the shares on March 31, 2011, the date the penalty was incurred.

13. CONTRIBUTED SURPLUS

	2011	2010
Balance, beginning of year	**$3,002,301**	$3,002,301
Fair value of stock options granted	**6,000**	–
Incremental fair value of stock options due to re-pricing	**48,246**	–
Fair value of agent warrants attached to the private placement Units (Note 11(b))	**161,063**	–
Fair value of agent warrants attached to convertible debentures (Note 11(b))	**61,169**	–
Balance, end of year	**$3,278,779**	$3,002,301

14. 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 income tax assets will not be realized. The ultimate realization of future income 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 income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future income tax assets considered realizable could change materially in the near term based on future taxable income during the loss carry-forward period.

14. INCOME TAXES (continued)

(a) Future Income Tax Assets and Liabilities

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

	2011	2010
Future income tax assets (liabilities):		
Non-capital losses carried forward	**$ 2,467,000**	$ 2,171,000
Tax value of property and equipment in excess of book value	**260,000**	188,000
Book value of intangible assets in excess of tax value	**(425,000)**	(425,000)
Share issue costs available to be deducted for tax purposes	**112,000**	86,000
Accounting reserves not deducted for tax purposes	**14,000**	19,000
Other	**3,000**	3,000
	2,431,000	2,042,000
Valuation allowance	**(2,431,000)**	(2,042,000)
Net future income tax assets	**$ –**	$ –

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

As at June 30, 2011, the Company has non-capital losses of approximately $9,804,000 (2010 - $8,566,000) 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:

Fiscal Year of Expiry	Amount
2014	**$ 52,000**
2015	**283,000**
2026	**257,000**
2027	**1,535,000**
2028	**1,696,000**
2029	**2,213,000**
2030	**1,831,000**
2031	**1,937,000**
	$ 9,804,000

(c) Reconciliation of Tax Rates

The Company is subject to Canadian federal and provincial taxes at an approximate rate of 27.50% (2010 – 29.25%). 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:

	2011	2010
Loss before income taxes	**$ 1,524,618**	$ 1,365,064
Statutory tax rate	**27.50%**	29.25%
Expected income tax recovery at statutory rates	**419,000**	399,000
Permanent differences	**(45,000)**	(51,000)
Change in valuation allowance	**(389,000)**	(316,000)
Changes in tax rates	**36,000**	22,000
Changes in estimates and other	**(21,000)**	(54,000)
Income tax recovery	**$ –**	$ –

15. LOSS PER SHARE

Net loss available to common shareholders in the computation of loss per share is as follows:

		2011		2010
Net loss and comprehensive loss	**$**	**(1,524,618)**	$	(1,365,064)
Dividends on exchangeable preferred shares		**(40,800)**		(40,800)
Net loss available to common shareholders	**$**	**(1,565,418)**	$	(1,405,864)

The weighted average number of shares outstanding used in the computation of loss per share was 42,899,846 (2010 – 34,458,770). Outstanding stock options, warrants, and agent unit options have not been considered in the computation of diluted loss per share as the result is anti-dilutive.

16. SUPPLEMENTAL CASH FLOW INFORMATION

		2011		2010
Cash paid for:				
Interest	**$**	**127,354**	$	65,932
Income taxes		**–**		–
Non-cash investing and financing activities:				
Capital lease obligations recognized for assets under capital lease	**$**	**106,982**	$	–
Common shares issued for services	**$**	**56,250**	$	–

17. RELATED PARTY TRANSACTIONS AND BALANCES

(a) During the year ended June 30, 2011, the Company incurred management fees of $257,250 to two directors of the Company (2010 – $128,600). As at June 30, 2011, the Company owed $20,000 to the two directors, 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 consulting fees of $107,798 to a company controlled by an officer 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 an officer and director of the Company. The amounts are non-interest bearing, unsecured and due on demand.

18. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS

(a) Fair Values of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, due to and from related parties, other assets, bank indebtedness, accounts payable, dividend payable, interest payable on convertible debenture, and due to related parties are reasonable estimates of fair values due to the relatively short periods to maturity and the commercial terms of these instruments. The carrying values of long-term debt, capital lease obligations and convertible debentures at June 30, 2011 are considered to be reasonable estimates of fair value based on current market rates for similar financial instruments.

(b) Fair Value Measurements

Certain of the Company's financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value our financial assets and liabilities are described below:

Level 1 - Quoted Prices in Active Markets for Identical Assets

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Cash equivalents and bank indebtedness, when applicable, are valued using quoted market prices. Accordingly, these items are included in Level 1 of the fair value hierarchy.

Level 2 - Significant Other Observable Inputs

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Derivative instruments are included in Level 2 of the fair value hierarchy as they are valued using pricing models or discounted cash flow models. These models require a variety of inputs, including, but not limited to, contractual terms, market prices, forward price curves, yield curves, and credit spreads. These inputs are obtained from or corroborated with the market where possible.

Level 3 - Significant Unobservable Inputs

Unobservable (supported by little or no market activity) prices.

18. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS (continued)

(b) Fair Value Measurements (continued)

Financial assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated balance sheet as of June 30, 2011 as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets For Identical Instruments (Level 1) $	Significant Other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $	Balance as of June 30, 2011 $
Assets:				
Cash and cash equivalents	**29,101**	**–**	**–**	**29,101**
Restricted term deposits	**100,000**	**–**	**–**	**100,000**
Liabilities:				
Bank indebtedness	**144,875**	**–**	**–**	**144,875**

(c) Financial Risks

(i) 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, 2011, the Company has significant accounts receivable from one major customer totalling $308,379 (2010 - $258,941). The Company manages credit risk for trade and other receivables through established credit monitoring activities. As at June 30, 2011, the Company's maximum exposure to credit risk is the carrying value of cash and cash equivalents, accounts receivable, due from related parties and other assets.

The Company's concentration of, and past due, accounts receivable are summarized as follows:

	2011		2010	
	Over 90 days	**Total**	Over 90 days	Total
Provincial Liquor Boards	**$ 14,727**	**$ 1,011,127**	$ 11,907	$ 961,274
Total	**$ 14,727**	**$ 1,011,127**	$ 11,907	$ 961,274

The Company has a concentration of credit risk because a majority of its accounts receivable are from provincial liquor boards, under provincially regulated industry sale and payment terms. The Company is not exposed to significant credit risk as payment in full is typically collected by provincial liquor boards at the time of sale and receivables are with government agencies. While substantially all of the Company's accounts receivable are from provincial government liquor authorities, the timing of receipts of large balances may vary significantly from period to period.

18. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS (continued)

(c) Financial Risks (continued)

(ii) Liquidity Risk

Liquidity risk arises from the Company's general and capital financing needs. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities, when feasible.

Contractual undiscounted cash flow requirements for financial liabilities as at June 30, 2011 are as follows:

	Less Than 1 Year $	Years 2 and 3 $	Years 4 and 5 $	More Than 5 Years $	Total $
Bank indebtedness	**144,875**	–	–	–	144,875
Accounts payable and accrued liabilities	**2,090,406**	–	–	–	2,090,406
Dividend payable	**163,200**	40,800	–	–	204,000
Interest payable on convertible debentures	**92,594**	27,724	–	–	120,318
Long-term debt	**138,000**	1,014,600	69,750	3,250	1,225,600
Capital lease obligations	**53,413**	55,766	22,397	–	131,576
Convertible debentures	–	740,750	–	–	740,750
	2,682,488	1,879,640	92,147	3,250	4,657,525

As at June 30, 2011, the Company had a working capital deficiency of $429,962.

(iii) Interest Rate Price Risk

Certain of the Company's long-term debt instruments, capital lease obligations and convertible debentures are subject to interest rate price risk as they carry fixed rates of interest. 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.

(iv) Interest Rate Cash Flow Risk

Certain of the Company's long-term debt instruments and bank indebtedness are subject to interest rate cash flow risk as they carry variable rates of interest. A plus or minus 1% change in market interest rates would not have a significant effect on the Company's loss and comprehensive loss for the year.

19. COMMITMENTS AND CONTINGENCIES

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

Fiscal Year	**Amount**
2012	**$ 412,631**
2013	**348,076**
2014	**225,422**
2015	**231,048**
2016	**231,048**
	$ 1,448,225

(b) As at June 30, 2011, the Company had issued a general excise bond of $55,000 in favour of the Minister of National Revenue of Canada.

(c) The Company has a bank operating line of credit with a limit of $100,000 which bears interest at prime, matures on July 18, 2011 and is secured by a term deposit of $100,000 (see Note 6).

20. CAPITAL MANAGEMENT

The Company manages its capital structure in order to ensure sufficient resources are available to meet operational requirements. The Company is required to maintain term deposits of $100,000 (2010 - $200,000) related to its bank line of credit and capital leases (see Note 6). There are no other externally imposed capital requirements.

The Company seeks to manage capital to provide adequate funding for its operations while minimizing dilution for its existing shareholders. The Company's principal source of funds is from the issuance of common shares and warrants.

Management considers its shareholders' equity, long-term debt, capital leases obligations and convertible debentures as capital, which consists of the following:

	2011	2010
Long-term debt	**$ 1,126,887**	$ 1,713,959
Capital lease obligations	**113,541**	139,237
Convertible debentures	**518,387**	-
Shareholders' equity	**3,412,430**	3,874,306
	$ 5,171,245	$ 5,727,502

21. MAJOR CUSTOMER

During the year ended June 30, 2011, the Company had sales of $3,466,000 (2010 – $3,945,000) to the Manitoba Liquor Control Commission which accounted for 45% of its gross revenues (2010 – 48%).