RUSSELL BREWERIES INC.
Management Discussion and Analysis
For the six months ended December 31, 2011

The following discussion and analysis prepared as of February 29, 2012 should be read in conjunction with unaudited condensed consolidated interim financial statements for the three and six months ended December 31, 2011, and 2010, the audited consolidated financial statements and related notes and Management Discussion and Analysis for the fiscal years ended June 30, 2011 and 2010.

All amounts presented in this MD&A are in Canadian dollars unless otherwise indicated.

Additional information related to Russell Breweries Inc. is available on SEDAR at www.sedar.com and on the Company's website at www.russellbeer.com.

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 and not to put undue reliance on forward-looking statements.

BASIS OF PRESENTATION AND TRANSITION TO IFRS

On July 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. Prior to the adoption of IFRS, the Company followed Canadian Generally Accepted Accounting Principles ("CGAAP"). While IFRS has many similarities to CGAAP, some of the Company's accounting policies have changed as a result of its transition to IFRS. The most significant accounting policy changes that have had an impact on the results of operations are discussed within the applicable sections of this MD&A, and in more detail in the Accounting Changes section of this MD&A.

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 IP'EH!, Russell A Wee Angry Scotch Ale, Russell Blood Alley Bitter, 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.

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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 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! and a Bronze medal in the Scottish-Style Pale Ale category for its Wee Angry Scottish Ale.

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 Gas town district. This well balanced beer has rich, robust roasted malt flavors 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.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS (continued)

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. Approvals were received in September and the Company is now shipping Russell Cream Ale, Russell IP eh! and Russell Wee Angry Scotch in 22 oz bottles in a test market in Spokane with a number of key King Distributor accounts.

On November 4, 2011, the Company's wholly owned subsidiary Russell Brewing Company was recognized with a 'Best Business Award' at the Surrey Board of Trade 13th Annual Surrey Business Excellence Awards.

Currently, the Company's products are segmented into the following categories:

Categories	Brands
Premium:	Russell IP'EH!, Black Death Porter, Russell Marzen, A Wee Angry Scotch Ale, Blood Alley Bitter
Session:	Russell Cream Ale, Russell Pale Ale, Russell Honey Blonde Ale, Russell Extra Special Lager, Fort Garry Dark, Fort Garry Pale, Fort Garry Rouge, Fort Garry Light, Citrus Twist, Craft Collection
Value:	Rocky Mountain Pilsner, Stone Cold Lager, Two Rivers
Seasonal:	Russell Lemon Ale, Russell Lime Lager
Partnership:	Chambar Ale, Main Street Pilsner, GUUU Ale, Bayside Shark Lager, Cactus Double Down Draught

SELECTED INFORMATION

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

Selected Information	IFRS		Canadian GAAP
	Six Months Ended 31-December-11	Six Months Ended 31-December-10	Six Months Ended 31-December-09
	$	$	$
Income Statement Data			
Gross Revenue[(1)]	4,116,726	3,894,407	4,219,810
Net Sales (after excise tax and provincial mark-up)	3,130,659	3,008,929	3,220,313
Earnings (loss) before interest and other income, taxes, depreciation and amortization	28,725	(211,199)	71,494
Total income (loss) from continuing operations[(2)(3)]	(369,321)	(600,578)	(519,382)
Operating income (loss) per share	(0.01)	(0.01)	(0.02)
Net income (loss) [(2)(3)]	(369,321)	(600,578)	(519,382)
Basic and diluted earnings (loss) per share	(0.01)	(0.01)	(0.02)
Balance Sheet Data			
Total assets[(4)]	7,257,802	8,730,830	6,458,261
Total long term financial liabilities	910,176	1,587,276	1,635,522
Cash dividends declared per share	Nil	Nil	Nil

SELECTED INFORMATION (continued)

1) In transitioning to IFRS, the Company has reclassified its other income to revenues as such income is part of the Company's normal course of business. The impact of the reclassification adjustment is described in the December 31, 2011 financial statement note 22(e).

2) Under pre-changeover Canadian GAAP, the Company included promotional and marketing materials to be used in the normal course of business with inventory. Under IFRS, these are considered a selling expense at the time the materials are purchased and received. The impact of the adjustment is described in the December 31, 2011 financial statement note 22(a).

3) As a consequence of applying the deemed cost election provided by IFRS 1 to certain property, plant and equipment assets, the accumulated impact to depreciation as determined under IAS 16, Property, Plant and Equipment ("IAS 16"), resulted in a cost recovery of property, plant and equipment assets and increase in equity. The impact of the adjustment is described in the December 31, 2011 financial statement note 22(c).

4) In transitioning to IFRS, the Company has reclassified its returnable containers from inventory to property, plant and equipment as their use covers more than one year. The impact of the reclassification adjustment is described in the December 31, 2011 financial statement note 22(b).

PERFORMANCE AND RESULTS OF OPERATIONS

Three Months Ended December 31, 2011 ("Q2 2012F")

Net Sales for Q2 2012F were $1,474,424 up $56,811 or 4% compared to $1,417,613 for the period ended December 31, 2010 ("Q2 2011F") The net sales increase is primarily a result of $123,805 increase in gross sales representing an increase of $197,000 in premium brands and $94,000, in value brands and a decrease of $142,000 in session brands and $13,000 in seasonal brands which reflects the Company's recent marketing strategy with a focus on premium brands.

The gross margin for Q2 2012F increased $175,724 or 30% to $752,452 compared to $576,728 for Q2 2011F. The gross margin percentage of Q2 2012F was up 10% to 51% compared to 41% for Q2 2011F. The increase in gross margin is primarily a result of the continued sales growth in higher margin premium brands.

Selling, general and administration expenses for Q2 2012F were $841,377 down $92,740 or 10% compared to $934,117 for the comparable period ended December 31, 2010 ("Q2 2011F"). Certain categories showed a continued cost reduction as various improvements and operating efficiencies have been implemented since Q1 2011F. The major cost reductions are advertising and promotion (decrease of $129,786 to $116,030 from $245,816),,telephone (decrease of $12,628 to $16,350 from $28,978), office expense (decrease $4,943 to $30,314 from $35,257), transfer agent and filing fees (decrease of $3,764 to $4,548 from $8,312) and automotive (decrease of $3,668 to $44,998 from $48,666). In addition, management fees increased $32,298 to $72,500 from $40,202, rent and utilities increased $31,269 to $149,662 from $118,393, labour increased $9,752 to $217,054 from $207,302, professional fees increased $5,316 to $94,847 from $89,531, director fees increased $9,000 to $9,000 from $nil, and shop supplies increased $8,217 to $15,482 from $7,265. The increase in management fees, professional fees and director fees reflects the officers' increased workload and the more involvement from the independent directors. The increase in rent and utilities, labour and shop supplies is a result of expansion of production since the Company implemented a new bottle filling and labeling system in April 2011 and obtained additional lease of 3,700 square feet space for storage at a cost of $3,500 per month in August 2011.

PERFORMANCE AND RESULTS OF OPERATIONS (continued)

Three Months Ended December 31, 2011 ("Q2 2012F")(continued)

Other expenses for Q2 2012F were down $3,857 to $85,433 compared to $89,290 for Q2 2011F. The decrease is primarily a result of elimination of higher rate demand loan in Q2 2011 which saves $22,723 on interest and $10,250 on other expenses associated with the demand loan and, which was offset by $33,718 increase in interest on long-term debt and convertible debentures.

The Company had a net loss of $286,193 for Q2 2012F compared to the net loss of $553,803 for Q2 2011F. The decrease in net loss is primarily a result of increasing in gross margin and decrease in selling, general and administrative expenses and other expenses.

Six Months Ended December 31, 2011 ("2012F YTD")

Net Sales for 2012F YTD were $3,130,659 up $121,730 or 4% compared to $3,008,929 for the period ended December 31, 2010 ("2011F YTD") The net sales increase is primarily a result of $222,319 increase in gross sales representing an increase of $330,000 increase in premium brands and $180,000 in value brands and a decrease of $250,000 in session brands and $25,000 in seasonal brands which reflects the Company's recent marketing strategy with a focus on premium brands.

The gross margin for 2012F YTD increased $149,408 or 10% to $1,625,040 compared to $1,475,632 for 2011F YTD. The gross margin percentage of 2012F YTD was up 3% to 52% compared to 49% for 2011F YTD. The increase in gross margin is primarily a result of the continued sales growth in higher margin premium brands.

Selling, general and administration expenses for 2012F YTD decreased $90,516 to $1,596,315 from $1,686,831 of 2011F YTD. Certain categories showed a continued cost reduction as various improvements and operating efficiencies have been implemented since Q1 2011F. The major cost reductions are advertising and promotion (decrease of $189,040 to $221,779 from $410,839), , telephone (decrease of $15,911 to $31,115 from $47,026), repairs and maintenance (decrease $5,690 to $30,443 from $36,133), transfer agent and filing fees (decrease of $4,942 to $7,581 from $12,523), and consulting fees (decrease of $3,180 to $9,000 from $12,180). In addition, management fees increased $68,595 to $145,000 from $76,405, rent and utilities increased $35,070 to $300,309 from $265,239, professional fees increased $18,675 to $136,149 from $117,474, director fees increased $15,000 to $15,000 from $nil, labor increased $13,090 to $423,091 to $410,001, and travel increased $9,732 to $27,479 from $17,747. The increase in management fees and professional fees is a result of renewing management contracts in January 2011 for the Company's CEO, COO and CFO which reflects more workload involved in financing, marketing and financial planning. The increase in director fees reflects more involvement from the independent directors in corporate governance of the Company since January 2011. The increase in rent and utilities and labor is a result of expansion of production since the Company implemented a new bottle filling and labeling system in April 2011 and obtained additional lease of 3,700 square feet space for storage at a cost of $3,500 per month in August 2011. The increase in travel expense is a result of more traveling to the Company's Winnipeg subsidiary which reflects more involvement from the head office in the production and marketing activities of the subsidiary.

Other expenses for 2012F YTD were up $10,728 to $170,547 compared to $159,819 for 2011F YTD. The increase is primarily a result of $65,666 additional interest recognized on the convertible debentures issued in connection with the private placement closed in December 2010. This increase was partially offset by a $40,223 decrease in interest paid on demand loan, $10,250 decrease in other expenses associated with the demand loan and $5,065 decrease in interest paid on capital lease obligations.

The Company had a net loss of $368,321 for Q2 2012F compared to the net loss of $600,578 for Q2 2011F, a decrease of $233,257. The decrease in net loss is primarily a result of $149,408 increase in gross margin and $90,516 decrease in selling, general and administrative expenses which is offset by an increase of $10,728 in other expenses.

PERFORMANCE AND RESULTS OF OPERATIONS (continued)

Summary of Quarterly Results

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

	IFRS						Canadian GAAP	
Fiscal Year Quarter	**2012F Q2**	**2012F Q1**	**2011F Q4**	**2011F Q3**	**2011F Q2**	**2011F Q1**	**2010F Q4**	**2010F Q3**
			Restated	Restated	Restated	Restated		Restated
	$	$	$	$	$	$	$	$
Net revenues	1,474,424	1,656,235	1,369,025	1,495,918	1,419,581	1,591,316	1,600,802	1,385,239
SG&A[(1)]	841,377	754,938	1,058,858	763,743	936,085	752,714	929,324	843,889
EBITDA[(2)]	(88,925)	117,650	(352,618)	(139,666)	(357,389)	146,190	(590,907)	(226,743)
Net income (loss)	(286,193)	(83,128)	(614,672)	(306,261)	(553,803)	(46,775)	(653,725)	(415,421)
Net earnings (loss) per share	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)

(1) SG&A represents Selling, General and Administrative expenses.

(2) EBITDA represents earnings before interest, income taxes, depreciation and amortization. EBITDA is a non-IFRS earnings measure, therefore it does not have any standardized meaning prescribed by International Financial Reporting Standards and may not be similar to measures presented by other companies. Management uses this measurement to evaluate the operating results of the Company.

Q2 2012F net sales were $1,474,424 down $181,811 compared to the net sales of $1,656,235 for Q1 2012F. Q2 2012F net loss were $286,193 up $203,065 compared to the net loss of $83,128 for Q1 2012F. The decrease in net sales and increase in net loss is due to seasonality.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

At December 31, 2011, the Company had a net working capital deficit of $2,102,258. The Company has $184,843 of cash and $100,000 of restricted cash securing $100,000 of bank indebtedness. Liabilities include $2,303,927 of accounts payable and accrued liabilities, $18,519 of interest payable on convertible debentures, $1,098,615 of long-term debts, $586,986 of convertible debentures and $81,867 of finance lease obligations. The Company has declared $142,800 dividends to its subsidiary's exchangeable preferred shareholders. The Company has not paid any dividends to its common share holders.

The Company has an operating line of credit, five finance leases, six operating leases, one demand loan, two term loans, one discount loan, and one convertible debenture. As at December 31, 2011 and the date of this MD&A, the Company is in compliance with all of these covenants.

Funds on hand are low due to seasonality, continued losses from operations and need for additional financing. The Company will 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. There is no guarantee that the Company will be able to raise additional equity or debt financing on favorable terms if at all or generate cash flow from operations in the future.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Cash Flow

Six Months Ended December 31, 2011 ("2012F YTD")

Net cash provided in operating activities in 2012F YTD was $322,330 compared to $103,799 cash used in 2011F YTD, a decrease in use of $426,129 due to $399,810 more cash collected from accounts receivable, $46,320 more cash provided from related parties, which is offset by $23,913 more cash used in inventory, $114,403 more cash used by accounts payable and accrued liabilities, $110,104 more cash used by prepaid expenses and deposits, $19,832 less cash provided by deferred costs.

Cash used in 2012F YTD for investing activities was $22,520 compared to $51,683 cash provided in 2011F YTD, a decreased in use of $74,203 due to $22,297 less used in purchasing property and equipment, $3,500 less used in acquisition of intangible assets, which was offset by the $100,000 redemption from restricted term deposits in 2011F YTD. There were no finance lease activities in 2012F YTD compared to $29,705 capital assets acquired through finance lease in 2010F YTD.

During 2012F YTD, the Company repaid $114,875 of bank indebtedness, $69,000 of long-term debts, and $31,674 of finance lease obligations, paid $18,519 interest on convertible debentures, and received $100,000 cash from a demand loan and $20,000 from share subscription compared to repayments of $136,534 for bank indebtedness, $77,883 for long-term debts, $99,302 for finance lease obligations, and $125,000 for demand loan and received cash of $675,038 from share subscriptions, and $666,675 from issuance of convertible debentures, and $100,000 from issuance of long-term debt in 2011F YTD.

Outstanding Share Data

As at December 31, 2011, the Company had 46,680,437 common shares issued and outstanding. In addition, the Company had the following outstanding share data at the date of this MD&A:

Outstanding Share Data	Number of Common Shares	Exercise Price per Common Share	Expiry Dates
Issued and outstanding as at December 31, 2011	46,680,437	N/A	N/A
Private placement	15,300,000	$0.05	N/A
Issued and outstanding as at February 29, 2012	61,980,437	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	28,030,000	$0.10 - $0.15	November 4, 2012 – January 20, 2013
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 February 29, 2012	101,672,230	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 December 31, 2011, the unpaid dividend amount was $142,800. 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.

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. On November 22, 2010, the Company repaid $375,000. As at December 31, 2011, the outstanding balance of the loan is $nil.

(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 six months ended December 31, 2011, the Company repaid $7,299 plus interest of $2,951. The Company also recorded interest expense of $3,201 (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. As at December 31, 2011, the outstanding balance of the loan is $64,892.

The Company also has a term bank loan with BDC, bearing interest at a floating base rate plus a variance of 1%, repayable in monthly installments of $9,750 plus interest maturing November 15, 2014, secured by the assets of Fort Garry. During the six months ended December 31, 2011, the Company repaid $58,500 plus interest of $11,293. As at December 31, 2011, the outstanding balance of the loan is $341,250.

(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 10(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. The Company 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 six months ended December 31, 2011, the Company recorded interest expense of $37,527 (2010 - $68,791) 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.

(d) On December 19, 2011, the Company entered into a loan facility agreement with a primary lender in the amount of $100,000, repayable at any time prior to January 31, 2012. An additional financing placement fee of $10,000 will be charged to the Company to secure this loan. Interest on the unpaid balance of the loan will accrue at an interest rate of 2.5% commencing 29 days following the due date of January 31, 2012, compounded monthly, not in advance. Subsequent to December 31, 2011, the Company repaid $100,000 plus $10,000 financing placement fee. There was no interest paid.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financing (continued)

(e) 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.

(f) On January 20, 2012, the Company closed a non-brokered private placement (the "Private Placement"). Under the Private Placement, the Company issued 15,300,000 units (the "Units") at a purchase price of $0.05 per Unit, for aggregate gross proceeds of $765,000. Each Unit is comprised of one common share ("Common Share") in the capital of the Company, and one half of one non-transferable share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to purchase one additional Common Share at a price of $0.10 for a period of one year from closing the Private Placement. The term of the Warrants is subject to an acceleration right at the option of the Company, provided that the daily volume-weighted average trading price of the Common Shares is $0.15 or higher for at least 10 consecutive trading days and the Company has provided Warrant holders with 30 days prior written notice of the accelerated exercise date. As of December 31, 2011, the Company received $20,000 in Private Placement subscriptions. The Company has paid finder's fees totaling $35,000 in connection with the Private Placement in accordance with the policies of the TSX Venture Exchange.

Contractual Obligations, Commitments

The Company utilizes several operating leases to finance manufacturing equipment and vehicles. The Company also leases the building in Surrey, BC and Winnipeg, Manitoba where it has its warehousing and packaging operations. By entering into operating leases, the Company is able to update its equipment more frequently, not utilize its cash to invest in these assets and in so doing lower its overall average cost compared with purchasing the assets. All leases are evaluated at inception for appropriate accounting treatment.

A summary of the Company's contractual obligations for the next five years is as follows:

	Less Than 1 Year $	Years 2 and 3 $	Years 4 and 5 $	More Than 5 Years $	Total $
Demand loan	**100,000**	–	–	–	100,000
Accounts payable and accrued liabilities	**2,030,927**	–	–	–	2,030,927
Dividend payable	**163,200**	40,800	–	–	204,000
Interest payable on convertible debentures	**55,557**	27,724	–	–	83,281
Long-term debt	**69,000**	1,014,600	73,000	–	1,156,600
Finance lease obligations	**16,550**	55,766	22,397	–	94,713
Convertible debentures	–	740,750	–	–	740,750
	2,435,234	1,879,640	95,397	–	4,410,271

RELATED PARTIES

The Company has identified its directors and certain senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties and on terms and conditions similar to non-related parties as follows:

Currently, the Company is accruing $1,000 per month to each of three independent directors. The Company also pays $12,083 monthly management fees to a company controlled by the CEO of the Company and $12,083 monthly management fees to the COO of the Company. The Company pays $11,388 monthly professional fees to a company controlled by the CFO of the Company. In addition, the Company pays $1,500 monthly consulting fees to a company controlled by a director of the Company.

The remuneration of members of key management and directors for the six months ended December 31, 2011are as follows:

(a) During the six months ended December 31, 2011, the Company incurred management fees of $32,500 to the CEO of the Company (2010 – $65,000) and $40,000 to, a company controlled by the CEO of the Company (2010 - $nil). As at December 31, 2011, the Company owed $5,727 to the CEO of the Company, which is non-interest bearing, unsecured and due on demand.

(b) During the six months ended December 31, 2011, the Company incurred management fees of $42,500 to the COO of the Company (2010 – $63,600) and $30,000 to a company controlled by the COO of the Company (2010 - $nil). As at December 31, 2011, the Company owed $44,580 to the COO of the Company, which is non-interest bearing, unsecured and due on demand.

(c) During the six months ended December 31, 2011, the Company incurred accounting fees of $68,537 to a company controlled by the CFO of the Company (2010 – $nil). As at December 31, 2011, the Company owed $46,100 to this company, which is non-interest bearing, unsecured and due on demand.

(d) During the six months ended December 31, 2011, the Company incurred salaries and wages expense of $68,333 to relatives of directors of the Company (2010 – $77,500) and salaries of $nil to a director of the Company (2010 – $24,000). As at December 31, 2011, the Company owed $7,333 to a relative of directors of the Company, which is non-interest bearing, unsecured and due on demand.

(e) During the six months ended December 31, 2011, the Company incurred director fees of $15,000 to directors of the Company (2010 – $nil). As at December 31, 2011, the Company owed $98,000 to the directors, which is non-interest bearing, unsecured and due on demand.

(f) During the six months ended December 31, 2011, the Company paid consulting fees of $9,000 to a company controlled by a director of the Company (2010 – $nil).

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.

CHANGES IN ACCOUNTING POLICIES

TRANSITION TO IFRS

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that Canadian publically accountable entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. In response to this requirement, the Company transitioned to IFRS on July 1, 2010 (“date of transition”) and prepared its opening IFRS statement of financial position on that date. The Company has prepared its first interim financial statements for the three months ended September 30, 2011, including the restatement of fiscal 2011 comparative information in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”). The Company will issue its first annual IFRS financial statements for the year ending June 30, 2012 (2012F), which will include the comparative period ending June 30, 2011.

Note 2 of the September 30, 2011 condensed consolidated interim financial statements provides a list of the Company's IFRS 1 mandatory exceptions and optional exemptions from full retrospective application of IFRS. Note 22 provides the users of the financial statement with detailed reconciliations between the Company's CGAAP and IFRS equity as at July 1, 2010, September 30, 2010 and June 30, 2011; and comprehensive income for the three months ended September 30, 2010 and year ended June 30, 2011.

IFRS ACCOUNTING POLICIES

The Company’s condensed consolidated interim financial statements for the three and six months ended December 31, 2011 have been prepared in accordance with IAS 34, Interim Financial Reporting, using the IFRS standards and interpretations currently issued and expected to be effective at the end of the Company’s first annual IFRS reporting period of June 30, 2012. Accounting policies currently adopted under IFRS are subject to change as a result of either new standards being issued with an effective date of June 30, 2012 or prior, or as a result of a voluntary change in accounting policy made by the Company during fiscal 2012. A change in an accounting policy used may result in material changes to the Company's reported financial position, results of operations and cash flows.

CRITICAL ACCOUNTING ESTIMATES

The preparation of condensed consolidated interim financial statements in conformity with IFRS 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 consolidated financial statements, and the reported amounts of revenues and expenses for the reporting period. Significant areas requiring the use of management estimates may include the estimated useful life of long-lived assets, the recoverability of amounts recorded for long-lived assets, valuation allowance on future income taxes and estimates used in calculating share-based compensation. 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. Actual results could differ from management’s best estimates as additional information becomes available.

Property, Plant and Equipment

The accounting for property, plant and equipment requires that management make estimates involving the life of the assets, the selection of an appropriate method of depreciation and determining whether an impairment of assets exists.

The Company reviews the residual values, useful lives of depreciable assets and depreciation method on an annual basis and where revisions are made, the Company applies such changes in estimates on a prospective basis.

CRITICAL ACCOUNTING ESTIMATES

Property, Plant and Equipment (continued)

The net carrying amounts of property, plant and equipment are reviewed for impairment either individually or at the cash generating unit level at the end of each reporting period. If there are indicators of impairment, an evaluation is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less cost to sell and its value-in-use. To the extent that an asset's carrying amount exceeds its recoverable amount, the excess is fully provided for in the period in which it is determined to be impaired. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. There is uncertainty in these estimates as the related recoverable amounts are projected for future years based on underlying assumptions such as volume growth, inflation factors and industry trends which may not materialize. Management uses its best estimates to forecast these amounts, but the actual amounts may vary from estimates. Should future results differ from management's estimates, an impairment of these assets and a related write-down may result. As at the date of this report, the Company believes that its estimates are materially correct.

Intangible Assets

Indefinite life intangible assets consist of brands and trademarks. These assets are recorded at cost and are not amortized but instead are reviewed for impairment at the end of each reporting period. If there are indicators of impairment, an evaluation is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less cost to sell and its value-in-use. There is uncertainty in these estimates as the related recoverable amounts are projected for future years based on underlying assumptions such as volume growth, inflation factors and industry trends which may not materialize. Management uses its best estimates to forecast these amounts, but the actual amounts may vary from estimates. Should future results differ from management's estimates, an impairment of these assets and a related write-down may result. As at the date of this report, the Company believes that its estimates are materially correct.

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.

RISKS AND UNCERTAINTIES (continued)

Competition (continued)

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.

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.

RISKS AND UNCERTAINTIES (continued)

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 alcoholic beverage industry in Canada is seasonal in nature. Accordingly, the Company has historically experienced a seasonal pattern in its operating results, with the second and third quarters historically exhibiting lower revenues. Therefore, the results in any one quarter are not indicative of results in any other quarter, or for the year as a whole.

Availability of financing

The Company requires continued support from its lenders to maintain its financial condition. The loss of this support could limit expansion opportunities and put strain on the Company's continuing operations. The ability to maintain current arrangements and secure future financing will depend, in part, upon the prevailing capital market conditions as well as the Company's business performance. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on satisfactory terms.