



RUSSELL BREWERIES INC.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED
MARCH 31, 2012 AND 2011**

UNAUDITED

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by, and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of the financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

RUSSELL BREWERIES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION****(UNAUDITED)**

	March 31 2012	June 30, 2011 (Note 22)
ASSETS		
Current		
Cash and cash equivalents	\$ 52,832	\$ 29,101
Accounts receivable	894,885	1,011,127
Inventories (Note 5)	782,973	811,771
Prepaid expenses and deposits	173,541	132,338
Due from related parties (Note 17)	–	15,402
	1,904,231	1,999,739
PROPERTY AND EQUIPMENT (Note 6)	3,268,864	3,591,507
INTANGIBLE ASSETS (Note 7)	1,935,268	1,935,268
RESTRICTED TERM DEPOSITS (Note 8)	100,000	100,000
	\$ 7,208,363	\$ 7,626,514
LIABILITIES		
Current		
Bank indebtedness (Note 19(c))	\$ 95,531	\$ 144,875
Accounts payable and accrued liabilities	1,581,671	2,090,406
Dividend payable (Note 14)	153,000	122,400
Interest payable on convertible debentures	18,519	18,519
Convertible debentures (Note 12)	626,001	–
Due to related parties	105,442	125,430
Current portion of long-term debt (Note 10)	850,096	138,000
Current portion of finance lease obligations (Note 11)	25,141	44,091
	2,829,400	2,683,721
LONG-TERM DEBT (Note 10)	235,107	988,887
FINANCE LEASE OBLIGATIONS (Note 11)	48,334	69,450
CONVERTIBLE DEBENTURES (Note 12)	–	518,387
	3,738,842	4,260,445
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 13)	9,752,163	9,036,272
SHARES ALLOTTED BUT UNISSUED (Note 10(b), Note 14 and Note 23)	25,440	25,440
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 12)	86,484	86,484
EXCHANGEABLE PREFERRED SHARES (Note 14)	518,979	518,979
SHARE-BASED PAYMENTS RESERVES	3,307,664	3,278,779
DEFICIT	(10,221,209)	(9,579,885)
	3,469,521	3,366,069
	\$ 7,208,363	\$ 7,626,514

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Note 19)

Approved on behalf of the Board of Directors on May 29, 2012:

/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.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS, AND COMPREHENSIVE LOSS****(UNAUDITED)**

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011 (Note 22)	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011 (Note 22)
REVENUES (Note 21)	\$ 1,947,390	\$ 1,814,891	\$ 6,064,116	\$ 5,709,298
LESS: EXCISE TAX AND PROVINCIAL MARK-UP	413,035	318,973	1,399,102	1,204,451
NET REVENUES	1,534,355	1,495,918	4,665,014	4,504,847
COST OF SALES	699,576	871,841	2,205,195	2,405,138
GROSS MARGIN	834,779	624,077	2,459,819	2,099,709
EXPENSES				
Depreciation	117,664	115,387	345,163	344,947
Selling, general and administrative (Notes 13(c) and 17)	860,238	763,743	2,456,553	2,450,574
	977,902	879,130	2,801,716	2,795,521
LOSS BEFORE OTHER INCOME (EXPENSE)	(143,123)	(255,053)	(341,897)	(695,812)
OTHER INCOME (EXPENSE)				
Interest on demand loan (Note 9)	—	-	—	(40,223)
Interest on long-term debt and convertible debt	(88,645)	(51,821)	(258,791)	(161,366)
Other expenses	(10,000)	-	(11,000)	(11,250)
Interest income	365	613	964	1,812
	(98,280)	(51,208)	(268,827)	(211,027)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(241,403)	(306,261)	(610,724)	(906,839)
LOSS PER SHARE (Note 15)				
Basic and diluted	\$ (0.00)	(0.01)	\$ (0.01)	(0.02)

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

RUSSELL BREWERIES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

	Share Capital		Unissued Shares	Convertible Debentures	Preferred Shares	Share-based payments reserves	Deficit	Total Shareholders' Equity
	Number of Shares	Value						
Balance, June 30, 2011	46,680,437	\$9,036,272	\$25,440	\$86,484	\$518,979	\$3,278,779	\$(9,579,885)	\$ 3,366,069
Net loss for the period	—	—	—	—	—	—	(610,724)	(610,724)
For Cash								
Private placement, net of share issue cost	15,300,000	715,860						715,860
Exercise of warrants	125	31						31
Fair value of stock options granted						28,885		28,885
Dividends on preferred shares	—	—	—	—	—	—	(30,600)	(30,600)
Balance, March 31, 2012	61,980,562	\$9,752,163	\$25,440	\$86,484	\$518,979	\$3,307,664	\$(10,221,209)	\$3,469,521

	Share Capital		Unissued Shares	Convertible Debentures	Preferred Shares	Share-based payments reserves	Deficit	Total Shareholders' Equity
	Number of Shares	Value						
Balance, July 1, 2010	33,325,437	\$8,321,132	—	—	\$518,979	\$3,002,301	\$(8,017,574)	\$3,824,838
Net loss for the period	—	—	—	—	—	—	(906,839)	(906,839)
For Cash								
Private placement, net of share issue cost	12,730,000	540,872	—	—	—	—	—	540,872
For Services								
Shares issued for corporate finance services	625,000	50,000	—	—	—	—	—	50,000
Fair value of stock options granted	—	—	—	—	—	6,000	—	6,000
Incremental fair value of stock options due to re-pricing	—	—	—	—	—	34,000	—	34,000
Fair value of warrants attached to the private placement	—	—	—	—	—	73,587	—	73,587
Fair value of warrants attached to convertible debentures	—	—	—	—	—	27,952	—	27,952
Exchangeable rights	—	—	—	126,484	—	—	—	126,484
Dividends	—	—	—	—	—	—	(30,600)	(30,600)
Balance, March 31, 2011	46,680,437	\$8,912,004	—	\$126,484	\$518,979	\$3,143,840	\$(8,955,013)	\$3,746,294

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

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

	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011 (Note 21)
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the period	\$ (610,724)	\$ (906,839)
Adjusted for non-cash items:		
Depreciation	345,163	344,947
Accretion of long-term debt	61,817	86,942
Accretion of convertible debentures	107,614	—
Accrued interest on convertible debentures	18,519	—
Stock-based compensation	28,885	40,000
	(48,726)	(434,950)
Net changes in non-cash working capital items:		
Accounts receivable	116,242	327,979
Prepaid expenses and deposits	(41,203)	(8,415)
Inventories	28,798	122,532
Deferred financing costs	—	19,832
Due to and from related parties	(4,586)	45,392
Accounts payable and accrued liabilities	(508,735)	(423,429)
	(458,210)	(351,059)
INVESTING ACTIVITIES		
Purchases of property and equipment	(22,520)	(57,997)
Redemption of restricted term deposits	—	100,000
Acquisition of intangible assets	—	(3,500)
	(22,520)	38,503
FINANCING ACTIVITIES		
Issuance of common shares	715,891	664,459
Convertible debentures, net of cash issuance costs	—	666,675
Interest payable on convertible debentures	(18,519)	27,883
Proceeds from demand loan	100,000	—
Repayment of demand loan	(100,000)	(125,000)
Proceeds from long-term debt	—	100,000
Repayment of bank indebtedness	(49,344)	(136,534)
Repayment of long-term debt	(103,501)	(753,428)
Repayment of finance lease obligations	(40,066)	(117,452)
	504,461	326,603
INCREASE IN CASH AND CASH EQUIVALENTS	23,731	14,047
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	29,101	42,552
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 52,832	\$ 56,599
CASH AND CASH EQUIVALENTS CONSIST OF:		
Demand deposits	\$ 52,832	\$ 56,599

SUPPLEMENTAL CASH FLOW INFORMATION (Note 16)

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

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

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 head office and principal address of the Company are located at #202 - 13018 80th Avenue, Surrey, British Columbia, V3W 2B2. 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 March 31, 2012, the Company had a working capital deficiency of \$925,169 and accumulated losses since inception of \$10,221,209. 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. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION –**First-Time Adoption of International Financial Reporting Standards ("IFRS")****a) Statement of Compliance**

These condensed interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. These condensed interim financial statements follow the same accounting policies and methods of application as our condensed interim financial statements for the three months ended September 30, 2011. Subject to certain IFRS transition elections disclosed in the condensed interim financial statement for the three months ended September 30, 2011, the Company has consistently applied the same accounting policies in these condensed interim financial statements, as if the policies have always been in effect. These condensed interim financial statements do not contain all of the information required for full annual financial statements and should be read in conjunction with our Canadian GAAP annual financial statements for the year ended June 30, 2011 and our interim financial statements for the quarter ended September 30, 2011 prepared in accordance with IFRS applicable to interim financial statements.

The unaudited condensed interim financial statements were authorized for issuance by the Board of Directors on May 29, 2012.

b) Presentation and Functional Currency

These condensed consolidated interim financial statements are presented in Canadian dollars. Under IFRS, the Canadian dollar is the functional currency of the Company and its wholly-owned subsidiaries, Russell Brewing Company Ltd. located in Surrey, British Columbia and Fort Garry Brewing Company Ltd. located in Winnipeg, Manitoba.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION (continued):**c) Basis of Measurement**

Depending on the applicable IFRS requirements, the measurement basis used in the preparation of these financial statements is cost, net realizable value, fair value or recoverable amount.

d) Seasonality

The alcoholic beverage industry in Canada is seasonal in nature. Accordingly, Russell 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.

e) Use of 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IFRS and reflect management's consideration of the following significant accounting policies:

(a) Basis of Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, 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) Financial Instruments**(i) Cash and Cash Equivalents**

Cash and cash equivalents, when applicable, is designated as fair value through profit or loss ("FVTPL") 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(iii) Bank Indebtedness

Bank indebtedness is designated as FVTPL 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 and designated as FVTPL. Unrealized gains and losses on derivatives are recorded in net earnings. Fair values for derivative instruments 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.

(c) 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.

Inventories are written down to net realizable value if that net realizable value is less than the carrying amount of the inventory item at the reporting date. If the net realizable value subsequently increases, a reversal of the loss initially recognized is applied to cost of sales.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(d) Property and Equipment****(i) Depreciation Methods and Rates**

Property and equipment is recorded at cost less accumulated depreciation. Depreciation 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
Refundable containers	7	Years

Leasehold improvements are depreciated using the straight-line method over the estimated term of the related lease.

(ii) 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.

(e) Impairment of Non-financial Assets

The carrying amounts of items in property, plant and equipment, and intangible assets are reviewed for impairment at the end of each reporting date. 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 costs to sell and its value-in-use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash-generating unit level.

Where a cash-generating unit includes intangible assets which are either not available for use or which have an indefinite useful life (and which can only be tested as part of a cash-generating unit), an impairment test is performed at least annually or whenever there is an indication that the carrying amounts of such assets may be impaired.

If the carrying amount of an individual asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recorded in the income statement to reflect the asset at the lower amount. In assessing the value-in-use, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal are discounted to their present value using a pre-tax discount rate which reflects the current market's assessments of the time value of money and asset-specific risks for which the cash flow estimates have not been adjusted. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties.

A reversal of a previously recognized impairment loss is recorded in the income statement when events or circumstances dictate that the estimates used to determine the recoverable amount have changed since the prior impairment loss was recognized. The carrying amount is increased to the recoverable amount but not beyond the carrying amount net of amortization which would have arisen if the prior impairment loss had not been recognized. After such a reversal, the amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(f) 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.

(g) Share-Based Compensation

The Company uses the fair value based method of accounting for share-based compensation for all awards of shares and share options granted.

The Company grants stock options to executive officers, directors, employees and consultants pursuant to a stock option plan described in Note 13.

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where share options are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

(h) 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.

(i) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(j) 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.

(k) Leases

Leases are classified as either finance or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a finance lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a finance 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 finance 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.

(l) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognized as interest expense.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after July 1, 2010, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

New accounting standards effective July 1, 2013

a) IFRS 9 Financial Instruments

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company:

b) IFRS 10 Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements*.

c) IFRS 11 Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Ventures*.

d) IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**New accounting standards effective July 1, 2013 (continued)****e) IFRS 13 Fair Value Measurement**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

f) Amendments to Other Standards

In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, IFRS 9 to 13 and the amendments to other standards, is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its condensed interim consolidated financial statements or whether to early adopt any of the new requirements.

5. INVENTORIES

	March 31, 2012		June 30, 2011	
Finished goods and work-in-progress	\$	313,034	\$	333,026
Raw materials		469,939		478,745
	\$	782,973	\$	811,771

RUSSELL BREWERIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011

6. PROPERTY AND EQUIPMENT

	Computer		Equipment		Leasehold improvements		Office furniture and fixtures		Vehicles		Returnable containers		Total
Cost													-
Balance as at July 1, 2010	\$	67,235	\$	5,767,680	\$	1,299,337	\$	51,744	\$	519,599	\$	840,279	\$ 8,545,874
Additions		2,050		123,586		8,489		11,050		-		10,406	155,581
Balance as at June 30, 2011		69,285		5,891,266		1,307,826		62,794		519,599		850,685	8,701,455
Additions		-		10,952		-		1,050		-		10,515	22,517
Balance as at March 31, 2012	\$	69,285	\$	5,902,218	\$	1,307,826	\$	63,844	\$	519,599	\$	861,200	\$ 8,723,972
Accumulated Depreciation													-
Balance as at July 1, 2010	\$	64,926	\$	2,507,875	\$	1,167,703	\$	47,634	\$	243,484	\$	618,206	\$ 4,649,828
Depreciation		1,884		295,019		53,463		5,650		51,960		52,144	460,120
Balance as at June 30, 2011		66,810		2,802,894		1,221,166		53,284		295,444		670,350	5,109,948
Depreciation		1,650		217,534		40,464		4,932		38,969		41,611	345,160
Balance as at March 31, 2012	\$	68,460	\$	3,020,428	\$	1,261,630	\$	58,216	\$	334,413	\$	711,961	\$ 5,455,108
Carrying amounts													-
July 1, 2010	\$	2,309	\$	3,259,805	\$	131,634	\$	4,110	\$	276,115	\$	222,073	\$ 3,896,046
June 30, 2011	\$	2,475	\$	3,088,372	\$	86,660	\$	9,510	\$	224,155	\$	180,335	\$ 3,591,507
March 31, 2012	\$	825	\$	2,881,790	\$	46,196	\$	5,628	\$	185,186	\$	149,239	\$ 3,268,864

Equipment includes assets under finance leases with a cost of \$387,636 (June 30, 2011 – \$387,636) and accumulated depreciation of \$66,013 (June 30, 2011 – \$53,058). Vehicles includes assets under finance leases with a cost of \$494,693 (June 30, 2011 – \$494,694) and accumulated depreciation of \$299,145 (June 30, 2011 – \$262,043).

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

7. INTANGIBLE ASSETS

	Brands and Trademarks	Website	Total
Cost			
Balance as at July 1, 2010	\$ 1,933,653	\$ 5,975	1,939,628
Additions	1,615	-	1,615
Balance as at June 30, 2011	1,935,268	5,975	1,941,243
Balance as at March 31, 2012	\$ 1,935,268	\$ 5,975	1,941,243
Depreciation			
Balance as at July 1, 2010	\$ -	\$ 5,890	5,890
Depreciation for the year	-	85	85
Balance as at June 30, 2011	-	5,975	5,975
Depreciation for the period	-	-	-
Balance as at March 31, 2012	\$ -	\$ 5,975	5,975-
Carrying amounts			
July 1, 2010	\$ 1,933,653	85	1,933,738
June 30, 2011	\$ 1,935,268	-	1,935,268
March 31, 2012	\$ 1,935,268	-	1,935,268

8. RESTRICTED TERM DEPOSITS

A term deposit of \$100,000 has been pledged as security for a \$100,000 bank line of credit (June 30, 2011 – \$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 finance lease. As at March 31, 2012, no term deposit has been pledged as security for finance leases (June 30, 2011 – \$nil).

9. DEMAND LOAN

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 was charged to the Company to secure this loan. Interest on the unpaid balance of the loan shall accrue at an interest rate of 2.5% commencing 29 days following the due date of January 31, 2012, compounded monthly, not in advance. Before January 31, 2012, the Company repaid \$100,000 plus \$10,000 financing placement fee. There was no interest paid.

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

10. LONG-TERM DEBT

	March 31, 2012	June 30, 2011
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)	\$ 312,000	\$ 399,750
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)	61,107	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)	712,096	654,946
	1,085,203	1,126,887
Less: current portion of long-term debt	(850,096)	(138,000)
Long-term portion of long-term debt	\$ 235,107	\$ 988,887

- (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 nine months ended March 31, 2012, the Company recorded interest expense of \$4,667 (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.

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

10. 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 March 31, 2012, 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 nine months ended March 31, 2012, the Company recorded interest expense of \$57,150 (2010 - \$86,942) 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	\$ 34,500
2013	758,000
2014	138,000
2015	69,750
2016	3,250
	\$ 1,003,500

11. FINANCE LEASE OBLIGATIONS

The Company finances certain property and equipment using finance 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 finance leases are as follows:

Fiscal Year:	Amount
2012	\$ 1,952
2013	34,010
2014	21,756
2015	22,397
Total minimum lease payments	80,115
Less: amount representing interest	(6,640)
Net minimum lease payments	73,475
Less: current portion of finance lease obligations	(25,141)
Long-term portion of finance lease obligations	\$ 48,334

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011****12. CONVERTIBLE DEBENTURES**

	March 31, 2012	June 30, 2011
Convertible debentures with a face value of \$531,000, bearing interest at 10%, unsecured and due on November 4, 2012	\$ 450,763	\$ 372,028
Convertible debentures with a face value of \$158,000, bearing interest at 10%, unsecured and due on December 3, 2012	132,461	110,606
Convertible debentures with a face value of \$51,750, bearing interest at 10%, unsecured and due on December 24, 2012	42,777	35,753
Liability component of convertible debentures	626,001	518,387
Less: current portion	—	—
Long-term portion	\$ 626,001	\$ 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 13(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 nine months ended March 31, 2012:

Liability component	March 31, 2012	June 30, 2011
Balance, beginning of period	\$ 518,387	\$ —
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	107,614	69,634
Balance, end of period	626,001	518,387
Less: current portion	—	—
Long-term portion, end of period	\$ 626,001	\$ 518,387

Equity component	December 31, 2011	June 30, 2011
Balance, beginning of period	\$ 86,484	\$ —
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 period	\$ 86,484	\$ 86,484

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

12. CONVERTIBLE DEBENTURES (continued)

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%.

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

13. 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 Share Capital

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.

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%. 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.

13. SHARE CAPITAL (continued)**(b) Issued Share Capital (continued)**

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. The Company has paid finder's fees totalling \$35,000 and share issue cost totalling \$14,140 in connection with the Private Placement in accordance with the policies of the TSX Venture Exchange.

(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. There were no options re-priced in the nine months ended March 31, 2012.

On March 9, 2012, the Company granted 3,000,000 incentive stock options to key employees and directors 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 \$0.05 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 1.49%; expected dividend yield of 0% and expected stock price volatility of 140%. During the nine months ended March 31, 2012, the Company recognized compensation cost of \$28,885 (2011 - \$nil) as selling, general and administrative expense.

RUSSELL BREWERIES INC.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011
13. SHARE CAPITAL (continued)
(c) Stock Options (continued)

Stock option activity during the nine months ended March 31, 2012 and the year ended June 30, 2011 is presented below:

	March 31, 2012		June 30, 2011	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	1,627,500	\$ 0.10	2,245,000	\$ 0.41
Granted	3,000,000	0.10	100,000	0.10
Cancelled for re-pricing	-	-	(1,872,500)	0.42
Re-priced options	-	-	1,872,500	0.10
Expired	(550,000)	0.10	-	-
Forfeited	-	-	(717,500)	0.23
Outstanding, ending of period	4,077,500	\$ 0.10	1,627,500	\$ 0.10

At March 31, 2012, the following stock options are outstanding:

Options Outstanding			Options Exercisable		
Exercise Price \$	Number of Shares	Weighted Average Remaining Life (in years)	Exercise Price \$	Number of Shares	Weighted Average Exercise Price \$
0.10	140,000	0.41	0.10	140,000	0.10
0.10	837,500	1.22	0.10	837,500	0.10
0.10	100,000	3.55	0.10	100,000	0.10
0.10	3,000,000	4.94	0.10	3,000,000	0.10
	4,077,500	3.99	0.10	4,077,500	0.10

On October 20, 2011, 550,000 stock options exercisable at \$0.10 per share expired unexercised.

(d) Warrants

Warrant activity during the nine months ended March 31, 2012 and the year ended June 30, 2011 is presented below:

	March 31, 2012		June 30, 2011	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	12,730,125	\$ 0.15	6,665,087	\$ 0.25
Granted	15,300,000	0.10	12,730,000	0.15
Exercised	(125)	0.25	-	-
Expired	-	-	(6,664,962)	0.25
Outstanding, ending of period	28,030,000	\$ 0.12	12,730,125	\$ 0.15

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

13. SHARE CAPITAL (continued)**(d) Warrants (continued)**

At March 31, 2012, 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
15,300,000	0.10	January 20, 2013
28,030,000	\$ 0.12	

(e) Agent Unit Warrants

Agent unit warrants activity during the nine months ended March 31, 2012 and the year ended June 30, 2011 is presented below:

	March 31, 2012		June 30, 2011	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	2,120,200	\$ 0.08	–	\$ –
Granted	–	–	2,120,200	0.08
Expired	–	–	–	–
Outstanding, ending of period	2,120,200	\$ 0.08	2,120,200	\$ 0.08

At March 31, 2012, 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	

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

14. EXCHANGEABLE PREFERRED SHARES

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

The Exchangeable Shares have a 6% per annum cumulative dividend, payable semi-annually, in accordance with rules under the Program. After five years (the "Exchange Date"), each Exchangeable Share will automatically be exchanged into 16.67 common shares of the Company, or earlier if certain events occur, including a change in control of the Company or an insolvency event in Russell. At the Exchange Date, the exchange ratio will be increased for any penalty incurred or for any unpaid dividends.

Russell will incur a penalty if it has not paid all cumulative dividends due and payable as of March 31, 2011 and for any unpaid dividends calculated each six months thereafter until the Exchange Date. The maximum penalty would result in one additional common share of the Company being exchanged for each Exchangeable Share. The exchange ratio will also increase to account for any unpaid dividends at the Exchange Date such that the additional number of the Company's common shares to be issued is equal to the unpaid dividend amount divided by \$0.60. As at March 31, 2012, the unpaid dividend amount was \$153,000 (June 30, 2011 - \$122,400). The Company did not pay the dividend due and payable as of March 31, 2011. The maximum penalty may result in an aggregate of 68,000 additional common shares of the Company being issued at the Exchange Date. During the year ended 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.

15. LOSS PER SHARE

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

	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Net loss and comprehensive loss	\$ (610,724)	\$ (906,839)
Dividends on exchangeable preferred shares	(30,600)	(30,600)
Net loss available to common shareholders	\$ (641,324)	\$ (937,439)

The weighted average number of shares outstanding used in the computation of loss per share for the nine months ended March 31, 2012 was 50,686,321 (2010 – 40,183,256). 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.

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
Cash paid for:		
Interest	\$ 89,360	\$ 86,942
Income taxes	—	—
Non-cash investing and financing activities:	\$ —	\$ —
Capital lease obligations recognized for assets under capital lease	—	29,705
Common shares issued for services	—	50,000

17. RELATED PARTY TRANSACTIONS AND BALANCES

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:

- (a) During the nine months ended March 31, 2012, the Company incurred management fees of \$38,750 to the CEO of the Company (2010 – \$59,000) and \$70,000 to a company controlled by the CEO (2010 - \$nil). As at March 31, 2012, the Company owed \$11,617 to the CEO, which is non-interest bearing, unsecured and due on demand.
- (b) During the nine months ended March 31, 2012, the Company incurred management fees of \$48,750 to the COO of the Company (2010 – \$59,000) and \$60,000 to a company controlled by the COO (2010 - \$nil). As at March 31, 2012, the Company owed \$32,745 to the COO, which is non-interest bearing, unsecured and due on demand.
- (c) During the nine months ended March 31, 2012, the Company granted 2,900,000 stock options to directors and officers and incurred director fees of \$24,000 to directors of the Company (2010 – \$nil). As at March 31, 2012, the Company owed \$32,877 to the directors, which is non-interest bearing, unsecured and due on demand.
- (d) During the nine months ended March 31, 2012, the Company paid consulting fees of \$13,500 to a company controlled by a director of the Company (2010 – \$nil).
- (e) During the nine months ended March 31, 2012, the Company incurred accounting fees of \$93,537 to a company controlled by the CFO of the Company (2010 – \$nil). As at March 31, 2012, the Company owed \$20,620 to this company, which is non-interest bearing, unsecured and due on demand.
- (f) During the nine months ended March 31, 2012, the Company incurred salaries and wages expense of \$102,083 to relatives of directors of the Company (2010 – \$116,250) and salaries of \$nil to a director of the Company (2010 – \$28,000). As at March 31, 2012, the Company owed \$7,586 to relatives 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.

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, finance lease obligations and convertible debentures at March 31, 2012 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.

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

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 March 31, 2012 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 May 31, 2012 \$
Assets:				
Cash and cash equivalents	52,832	—	—	52,832
Restricted term deposits	100,000	—	—	100,000
Liabilities:				
Bank indebtedness	95,531	—	—	95,531

(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 March 31, 2012, the Company has significant accounts receivable from one major customer totalling \$361,677 (June 30, 2011 - \$308,379). The Company manages credit risk for trade and other receivables through established credit monitoring activities. As at March 31, 2012, 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:

	March 31, 2012		June 30, 2011	
	Over 90 days	Total	Over 90 days	Total
Provincial Liquor Boards	\$ 14,410	\$ 361,677	\$ 14,727	\$ 1,011,127
Total	\$ 14,410	\$ 361,677	\$ 14,727	\$ 1,011,127

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.

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

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 March 31, 2012 are as follows:

	Less Than 1 Year \$	Years 2 and 3 \$	Years 4 and 5 \$	More Than 5 Years \$	Total \$
Demand loan	–	–	–	–	–
Accounts payable and accrued liabilities	1,581,671	–	–	–	1,581,671
Dividend payable	163,200	40,800	–	–	204,000
Interest payable on convertible debentures	37,038	27,724	–	–	64,762
Long-term debt	34,500	1,014,600	73,000	–	1,122,100
Finance lease obligations	1,952	55,766	22,397	–	80,115
Convertible debentures	740,750	–	–	–	740,750
	2,559,111	1,138,890	95,397	–	3,793,398

As at March 31, 2012, the Company had a working capital deficiency of \$925,169.

(iii) Interest Rate Price Risk

Certain of the Company's long-term debt instruments, finance 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.

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

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:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 107,193
2013	348,076
2014	225,422
2015	231,048
2016	231,048
	\$ 1,142,787

- (b) As at March 31, 2012, 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 16, 2012 and is secured by a term deposit of \$100,000 (see Note 8).

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 - \$100,000) related to its bank line of credit (see Note 8). 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, finance lease obligations and convertible debentures as capital, which consists of the following:

	March 31, 2012	June 30, 2011
Long-term debt	\$ 1,085,203	\$ 1,126,887
Finance lease obligations	73,475	113,541
Convertible debentures	626,001	518,387
Shareholders' equity	3,502,571	3,366,069
	\$ 5,287,250	\$ 5,124,884

21. MAJOR CUSTOMER

During the nine months ended March 31, 2012, the Company had sales of \$2,551,630 (2010 - \$2,758,096) to the Manitoba Liquor Control Commission which accounted for 42% of its gross revenues (2010 - 48%).

22. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these condensed consolidated interim financial statements are prepared in accordance with IFRS. The Company has adopted IFRS effective July 1, 2011 with a transition date of July 1, 2010. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

The accounting policies in Note 3 have been applied in preparing the condensed interim consolidated financial statements for the three and nine months ended March 31, 2012, the comparative information for the three and nine months ended March 31, 2011 and the statement of financial position as at June 30, 2011 and the preparation of an opening IFRS statement of financial position on the transition date, July 1, 2010. For disclosures and reconciliations related to the first time adoption of IFRS refer to the Company's condensed consolidated interim financial statements for the three months ended September 30, 2011.

The guidance for the first time adoption of IFRS is set out in IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Under IFRS 1 the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. The Company has applied the following optional exemptions in its conversion of previous GAAP to IFRS:

Share-based Payment

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to July 1, 2010.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following mandatory exception in its conversion of previous GAAP to IFRS:

Business Combination

The Company elected under IFRS 1 to not to apply IFRS 3, *Business Combinations* retrospectively to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

Compound Financial Instruments

The Company has elected under IFRS 1 not to retrospectively separate the liability and equity components of any compound instruments for which the liability component is no longer outstanding at the Transition Date.

22. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of July 1, 2010 are consistent with its GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, some differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statements of comprehensive income, statements of financial position and statements of cash flows for the three and nine months ended March 31, 2011 and the year ended June 30, 2011 have been reconciled to IFRS, with the resulting differences explained below.

RUSSELL BREWERIES INC.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011
Reconciliation of Assets, Liabilities and Equity

	Note	Previous GAAP	Effect of IFRS Transition	IFRSs	Previous GAAP	Effect of IFRS Transition	IFRSs	Previous GAAP	Effect of IFRS Transition	IFRSs
			July 1, 2010			March 31, 2011			June 30, 2011	
ASSETS										
Current										
Cash and cash equivalents		\$ 42,552	\$ —	\$ 42,552	\$ 56,599	\$ —	\$ 56,599	\$ 29,101	\$ —	\$ 29,101
Accounts receivable		961,274	—	961,274	633,295	—	633,295	1,011,127	—	1,011,127
Inventories	a)	1,211,903	(71,360)	918,470	1,061,706	(60,968)	1,000,738	1,065,791	(73,685)	811,771
	b)		(222,073)			—			(180,335)	
Prepaid expenses and deposits		117,690	—	117,690	126,105	—	126,105	132,338	—	132,338
Due from related parties		45,392	—	45,392	—	—	—	15,402	—	15,402
		2,378,811	(293,433)	2,085,378	1,877,705	(60,968)	1,816,737	2,253,759	(254,020)	1,999,739
Property and Equipment	c)	3,652,166	21,892	3,896,046	3,408,120	25,966	3,434,086	3,383,848	27,324	3,591,507
	b)		222,073			—			180,335	
	d)		(85)							
Intangible Assets	d)	1,933,653	85	1,933,738	1,937,153	—	1,937,153	1,935,268	—	1,935,268
Deferred Financing Cost		19,832	—	19,832	—	—	—	—	—	—
Restricted Term Deposits		200,000	—	200,000	100,000	—	100,000	100,000	—	100,000
		\$ 8,184,462	\$ (49,468)	\$ 8,134,994	\$ 7,322,978	\$ (35,002)	\$ 7,287,976	\$ 7,672,875	\$ (46,361)	\$ 7,626,514
LIABILITIES										
Current										
Bank indebtedness		\$ 136,534	\$ —	\$ 136,534	\$ —	\$ —	\$ —	\$ 144,875	\$ —	\$ 144,875
Accounts payable and accrued liabilities		2,113,826	—	2,113,826	1,690,397	—	1,690,397	2,090,406	—	2,090,406
Dividend payable		81,600	—	81,600	112,200	—	112,200	122,400	—	122,400
Demand loan		125,000	—	125,000	—	—	—	—	—	—
Interest payable on Convertible debentures		—	—	—	27,883	—	27,883	18,519	—	18,519
Due to related parties		—	—	—	—	—	—	125,430	—	125,430
Current portion of long-term debt		1,314,209	—	1,314,209	138,000	—	138,000	138,000	—	138,000
Current portion of finance lease obligations		97,395	—	97,395	33,597	—	33,597	44,091	—	44,091
		3,868,564	—	3,868,564	2,002,077	—	2,002,077	2,683,721	—	2,683,721
Long-term Debt		399,750	—	399,750	1,009,473	—	1,009,473	988,887	—	988,887
Finance Lease Obligations		41,842	—	41,842	17,893	—	17,893	69,450	—	69,450
Convertible Debentures		—	—	—	512,239	—	512,239	518,387	—	518,387
		4,310,156	—	4,310,156	3,541,682	—	3,541,682	4,260,445	—	4,260,445
SHAREHOLDERS' EQUITY										
Share capital		8,321,132	—	8,321,132	8,912,004	—	8,912,004	9,036,272	—	9,036,272
Shares Alloted but Unissued		—	—	—	—	—	—	25,440	—	25,440
Equity Component of Convertible Debentures		—	—	—	126,484	—	126,484	86,484	—	86,484
Exchangeable Preferred Shares		518,979	—	518,979	518,979	—	518,979	518,979	—	518,979
Contributed Surplus		3,002,301	—	3,002,301	3,143,840	—	3,143,840	3,278,779	—	3,278,779
Deficit	a)	(7,968,106)	(71,360)	(8,017,574)	(8,920,011)	(60,968)	(8,955,013)	(9,533,524)	(73,685)	(9,579,885)
	c)		21,892			25,966			27,324	
		3,874,306	(49,468)	3,824,838	3,781,296	(35,002)	3,746,294	3,412,430	(46,361)	3,366,069
		\$ 8,184,462	\$ (49,468)	\$ 8,134,994	\$ 7,322,978	\$ (35,002)	\$ 7,287,976	\$ 7,672,875	\$ (46,361)	\$ 7,626,514

RUSSELL BREWERIES INC.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011
Reconciliation of Comprehensive Income

		Previous GAAP	Effect of IFRS Transition	Re- classification	IFRSs	Previous GAAP	Effect of IFRS Transition	Re- classification	IFRSs			
	Note	Three months ended March 31, 2011				Nine months ended March 31, 2011						
		\$	\$		\$	\$						
Revenues	e)	1,809,346	5,545	\$	–	1,814,891	5,702,104	\$	7,194	\$	–	5,709,298
Less: excise tax and provincial mark-up		318,973	–		–	318,973	1,204,451		–		–	1,204,451
Net revenues		1,490,373	5,545		–	1,495,918	4,497,653		7,194		–	4,504,847
Cost of sales		871,841	–		–	871,841	2,405,138		–		–	2,405,138
Gross margin		618,532	5,545		–	624,077	2,092,515		7,194		–	2,099,709
Expenses												
Depreciation	c)	116,745	(1,358)		–	115,387	349,021		(4,074)		–	344,947
Selling, general and administrative	a)	777,785	(14,042)		–	763,743	2,464,569		(10,392)		–	2,450,574
	e)								(3,603)			
		894,530	(15,400)		–	879,130	2,813,590		(18,069)		–	2,95,521
Loss before other income (expense)		(275,998)	20,945		–	(255,053)	(721,075)		25,263		–	(695,812)
Other Income (Expense)												
Interest on demand loan	f)	–	–		–	–	–		–		(40,223)	(40,223)
Interest on long-term debt and convertible debt	f)	(51,821)	–		–	(51,821)	(212,839)		–		51,473	(161,366)
Other expense		–	–		–	–	–		–		(11,250)	(11,250)
Interest income (expense)		613	–		–	613	1,812		–		–	1,812
Other income	e)	5,545	(5,545)		–	–	10,797		(10,797)		–	–
Gain on settlement of accounts payable		–	–		–	–	–		–		–	–
		(45,663)	(5,545)		–	(51,208)	(200,230)		(10,797)		–	(211,027)
Net Income (loss) and comprehensive loss for the period		\$(321,661)	\$ 15,400	\$	–	\$(306,261)	\$(921,305)	\$	14,466	\$	–	\$(906,839)
Basic and diluted earnings (loss) per common share		(\$0.01)	–		–	(\$0.01)	(\$0.02)		–		–	(\$0.02)
Weighted average number of common shares outstanding		46,680,437	–		–	46,680,437	46,680,437		–		–	46,680,437

22. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

- a) 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 \$71,360 decrease of the beginning balance of equity as of July 1, 2010, \$14,042 and \$10,392 decrease in selling, general and administrative and net loss for the three and nine months ended March 31, 2011 respectively, and \$2,325 increase in selling, general and administrative and net loss for the year ended June 30, 2011. The cumulative impact of such adjustment is a decrease of \$71,360, \$75,010 and \$73,685 in equity as of July 1, 2010, March 31, 2011 and June 30, 2011 respectively.
- b) 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 \$222,073, \$nil and \$180,335 increase in property, plant and equipment, and \$222,073, \$nil and \$180,335 decrease in inventory at July 1, 2010, March 31, 2011 and June 30, 2011 respectively. There is no impact to equity.
- c) 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 of \$21,892, \$25,966, and \$27,324 as at July 1, 2010, March 31, 2011 and June 30, 2011 respectively. The net impact of the adjustment is \$1,358 and \$4,074 decrease in amortization and net loss for the three and nine months ended March 31, 2011 respectively, and \$5,432 decrease in amortization and net loss, and increase in equity for the year ended June 30, 2011.
- d) Under pre-changeover Canadian GAAP, the Company presented its website costs under property, plant, and equipment, which were recorded at historical cost less amortization. Under IFRS, these assets are considered intangible assets. The impact of the reclassification adjustment is \$85 increase in intangible assets and \$85 decrease in property, plant, and equipment at July 1, 2010. There is no impact to equity.
- e) In transitioning to IFRS, the Company has reclassified its other income to revenues as this income is part of the Company's normal course of business. The impact of the reclassification adjustment is \$5,545 and \$7,194 increase in revenues respectively, net revenues, and gross margin for the three and nine months ended March 31, 2012 respectively; \$nil and \$3,603 decrease in selling, general and administrative for the three and nine months ended March 31, 2012 respectively; 5,545 and \$10,797 decreases in net loss before other items, and other income for the three and nine months ended March 31, 2011 respectively. For the year ended June 30, 2011, the impact of the reclassification adjustment is \$12,080 increase in revenues, net revenues, and gross margin and \$3,603 decrease in selling, general and administrative, and \$15,683 decrease in net loss before other items, and other income. There is no impact to equity.
- f) During the three and nine months ended March 31, 2011, the Company presented its interest on demand loan of \$nil and \$40,223 respectively under interest on long-term debt which should have been recorded separately under interest on demand loan due to its short-term nature. There is no impact to equity.

There is no material differences between the condensed consolidated interim statement of cash flows presented under IFRS and the consolidated interim statement of cash flows presented under previous Canadian GAAP.

RUSSELL BREWERIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 AND 2011**

23. SUBSEQUENT EVENTS

Subsequent to March 31, 2012, the Company issued 125,000 common shares in its capital as bonus shares to each of its two directors who provided personal guaranty to \$100,000 working capital loan from Business Development Bank of Canada (Note 10).