RUSSELL BREWERIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2012 AND 2011

MANNING ELLIOTT
CHARTERED ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Russell Breweries Inc.

We have audited the accompanying consolidated financial statements of Russell Breweries Inc. which comprise the consolidated statements of financial position as at June 30, 2012, June 30, 2011 and July 1, 2010 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended June 30, 2012 and June 30, 2011, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Russell Breweries Inc. as at June 30, 2012, June 30, 2011 and July 1, 2010, and its financial performance and cash flows for the years ended June 30, 2012 and June 30, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

October 26, 2012

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT JUNE 30, 2012, JUNE 30 2011, AND JULY 1, 2010

(Expressed in Canadian Dollars)

		June 30, 2012	June 30, 2011 (Note 23)	July 1, 2010 (Note 23)
ASSETS				
Current				
Cash and cash equivalents	$	**29,199**	$ 29,101	$ 42,552
Accounts receivable		**876,530**	1,011,127	961,274
Inventories (Note 5)		**735,852**	811,771	918,470
Prepaid expenses and deposits		**134,482**	132,338	117,690
Due from related parties (Note 18)		**–**	15,402	45,392
		1,776,063	1,999,739	2,085,378
PROPERTY AND EQUIPMENT (Note 6)		**3,167,586**	3,591,507	3,896,046
INTANGIBLE ASSETS (Note 7)		**1,935,268**	1,935,268	1,933,738
DEFERRED FINANCING COSTS		**–**	–	19,832
RESTRICTED TERM DEPOSITS (Note 8)		**100,000**	100,000	200,000
	$	**6,978,917**	$ 7,626,514	$ 8,134,994
LIABILITIES				
Current				
Bank indebtedness (Note 20(c))	$	**35,793**	$ 144,875	$ 136,534
Accounts payable and accrued liabilities		**1,442,437**	2,090,406	2,113,826
Dividend payable (Note 14)		**163,200**	122,400	81,600
Demand loan (Note 9)		**–**	–	125,000
Interest payable on convertible debentures		**18,519**	18,519	–
Convertible debentures (Note 12)		**668,841**	–	–
Due to related parties		**181,447**	125,430	–
Current portion of long-term debt (Note 10)		**869,719**	138,000	1,314,209
Current portion of finance lease obligations (Note 11)		**19,563**	44,091	97,395
		3,399,519	2,683,721	3,868,564
LONG-TERM DEBT (Note 10)		**202,000**	988,887	399,750
FINANCE LEASE OBLIGATIONS (Note 11)		**41,559**	69,450	41,842
CONVERTIBLE DEBENTURES (Note 12)		**–**	518,387	–
DEFERRED TAX LIABILITIES (Note 15)		**321,000**	**–**	–
		3,964,078	4,260,445	4,310,156
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 13)		**9,772,163**	9,036,272	8,321,132
SHARES ALLOTTED BUT UNISSUED (Notes 10(b) and 14)		**5,440**	25,440	–
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 12)		**86,484**	86,484	–
EXCHANGEABLE PREFERRED SHARES (Note 14)		**518,979**	518,979	518,979
SHARE-BASED PAYMENTS RESERVES		**3,361,624**	3,278,779	3,002,301
DEFICIT		**(10,729,851)**	(9,579,885)	(8,017,574)
		3,014,839	3,366,069	3,824,838
	$	**6,978,917**	$ 7,626,514	$ 8,134,994

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Note 19)
SUBSEQUENT EVENT (Note 24)

Approved on behalf of the Board of Directors on October 26, 2012:

/s/ Richard Shier	*/s/ Brian Harris*
Richard Shier, Director	Brian Harris, Director

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

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(Expressed in Canadian Dollars)

		2012		2011 (Note 23)
REVENUES (Note 22)	**$**	**8,416,964**	$	7,757,308
LESS: EXCISE TAX AND PROVINCIAL MARK-UP		**1,938,969**		1,883,436
NET REVENUES		**6,477,995**		5,873,872
COST OF SALES (Note 5)		**3,054,575**		3,094,707
GROSS MARGIN		**3,423,420**		2,779,165
EXPENSES				
Depreciation		**138,672**		128,265
Selling, general and administrative (Notes 13(c) and 18)		**3,711,816**		3,814,576
		3,850,488		3,942,841
LOSS BEFORE OTHER INCOME (EXPENSE)		**(427,068)**		(1,163,676)
OTHER INCOME (EXPENSE)				
Interest on demand loan		**–**		(40,223)
Interest on long-term debt and convertible debt		**(351,115)**		(283,962)
Other expenses		**(11,000)**		(35,965)
Interest income		**1,017**		2,315
		(361,098)		(357,835)
LOSS BEFORE INCOME TAXES		**(788,166)**		(1,521,511)
INCOME TAXES				
Deferred income tax expense (Note 15)		**(321,000)**		–
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		**(1,109,166)**		(1,521,511)
LOSS PER SHARE (Note 16)				
Basic and diluted	**$**	**(0.02)**	$	(0.04)

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(Expressed in Canadian Dollars)

	Share Capital							
	Number of Shares	Value	Allotted Shares	Convertible Debentures	Preferred Shares	Share-based payments reserves	Deficit	Total Shareholders' Equity
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
Comprehensive loss for the year	–	–	–	–	–	–	(1,109,166)	(1,109,166)
For Cash								
Private placement, net of share issue cost	15,300,000	715,860	–	–	–	–	–	715,860
Exercise of warrants	125	31	–	–	–	–	–	31
Bonus shares	250,000	20,000	(20,000)	–	–	–	–	–
Fair value of stock options granted	–	–	–	–	–	82,845	–	82,845
Dividends on preferred shares	–	–	–	–	–	–	(40,800)	(40,800)
Balance, June 30, 2012	62,230,562	$9,772,163	$5,440	$86,484	$518,979	$3,361,624	$(10,729,851)	$3,014,839

	Share Capital							
	Number of Shares	Value	Allotted Shares	Convertible Debentures	Preferred Shares	Share-based payments reserves	Deficit	Total Shareholders' Equity
Balance, July 1, 2010	33,325,437	$8,321,132	–	–	$518,979	$3,002,301	$(8,017,574)	$3,824,838
Comprehensive loss for the year	–	–	–	–	–	–	(1,521,511)	(1,521,511)
For Cash								
Private placement, net of share issue cost	12,730,000	658,890	–	–	–	–	–	658,890
For Services								
Shares issued for corporate finance services	625,000	56,250	–	–	–	–	–	56,250
Fair value of stock options granted	–	–	–	–	–	6,000	–	6,000
Incremental fair value of stock options due to re-pricing	–	–	–	–	–	48,246	–	48,246
Fair value of warrants attached to the private placement						161,063		161,063
Fair value of warrants attached to convertible debentures	–	–	–	–	–	61,169	–	61,169
Exchangeable rights	–	–	–	86,484	–	–	–	86,484
Bonus shares allotted but unissued	–	–	20,000	–	–	–	–	20,000
Penalty shares unissued for unpaid interest on exchangeable preferred shares (Note 14)	–	–	5,440	–	–	–	–	5,440
Dividends	–	–	–	–	–	–	(40,800)	(40,800)
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

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(Expressed in Canadian Dollars)

		2012		2011 (Note 23)
CASH FLOWS PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net loss for the year	**$**	**(1,109,166)**	$	(1,521,511)
Adjusted for non-cash items:				
Deferred income tax expense		**321,000**		–
Depreciation		**460,038**		460,193
Accretion of long-term debt		**82,832**		108,678
Accretion of convertible debentures		**150,454**		69,634
Accrued interest on convertible debentures		**18,519**		18,519
Penalty for unpaid interest on preferred shares		**–**		5,440
Share-based compensation		**82,844**		54,246
		6,521		(804,801)
Net changes in non-cash working capital items:				
Accounts receivable		**134,597**		(49,853)
Prepaid expenses and deposits		**(2,144)**		(14,648)
Inventories		**75,919**		96,371
Deferred financing costs		**–**		19,832
Due to and from related parties		**71,419**		155,420
Accounts payable and accrued liabilities		**(647,968)**		(23,420)
		(361,656)		(621,099)
INVESTING ACTIVITIES				
Purchases of property and equipment		**(36,117)**		(38,259)
Redemption of restricted term deposits		**–**		100,000
Acquisition of intangible assets		**–**		(1,615)
		(36,117)		60,126
FINANCING ACTIVITIES				
Issuance of common shares		**715,891**		805,934
Convertible debentures, net of cash issuance costs		**–**		666,675
Interest payable on convertible debentures		**(18,519)**		–
Proceeds from demand loan		**100,000**		250,000
Repayment of demand loan		**(100,000)**		(375,000)
Proceeds from long-term debt		**–**		100,000
Repayment of bank indebtedness		**(109,082)**		8,341
Repayment of long-term debt		**(138,000)**		(775,750)
Repayment of finance lease obligations		**(52,419)**		(132,678)
		397,871		547,522
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**98**		(13,451)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**29,101**		42,552
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**29,199**	$	29,101
CASH AND CASH EQUIVALENTS CONSIST OF:				
Demand deposits	**$**	**29,199**	$	29,101

SUPPLEMENTAL CASH FLOW INFORMATION (Note 17)

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

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 3A8. The Company produces beer primarily for sale to provincial liquor distribution organizations and entities engaged in the food and beverage industries within Canada. The Company's shares are traded on the TSX Venture Exchange (the "TSX.V").

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at June 30, 2012, the Company had a working capital deficiency of $1,623,456 and accumulated losses since inception of $10,729,851. 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 consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These are the Company's first IFRS annual consolidated financial statements. Subject to certain IFRS transition elections disclosed in Note 23, the Company has consistently applied the same accounting policies in its opening IFRS Statement of Financial Position at July 1, 2010 and throughout all periods presented, as if the policies have always been in effect. The audited annual financial statements were authorized for issuance by the Board of Directors on October 26, 2012.

b) Presentation and Functional Currency

These consolidated 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.

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) Significant Accounting Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and judgments 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 recovery of accounts receivable, inventory valuation, the estimated useful life of long-lived assets, the recoverability of amounts recorded for long-lived assets, estimates used in impairment analysis of long-lived assets, container liabilities, valuation of deferred tax assets and liabilities 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 consolidated 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.

(iii) Restricted Term Deposits and Bank Indebtedness

Restricted term deposits and bank indebtedness are designated as FVTPL and are recorded at fair value with gains and losses recorded in the statement of comprehensive loss.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of Non-financial Assets (continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Share-Based Compensation (continued)

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss, unless the fair value cannot be estimated reliably, in which case they are recorded at the fair value of the equity instruments granted.

(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.

(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 offset against the related debt or recognized as part of the gain or loss on extinguishment of the existing debt.

(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 probable 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, 2012, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standards effective July 1, 2013

a) IFRS 10 Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed to, 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.*

b) 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*.

c) 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.

d) 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.

e) 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.

Amendments to IAS 1 *Presentation of Financial Statements* – The IASB has amended IAS 1 to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be reclassified into profit or loss in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

(Expressed in Canadian Dollars)

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

New accounting standards effective July 1, 2013 (continued)

Each of the new standards, IFRS 10 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 consolidated financial statements or whether to early adopt any of the new requirements.

New accounting standards effective July 1, 2015

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.

The Company has not completed its evaluation of the effect of adopting these standards on its financial statements.

5. INVENTORIES AND COST OF SALES

		2012		2011
Finished goods	**$**	**107,123**	$	124,927
Work-in-progress		**155,362**		208,099
Raw materials		**473,367**		478,745
	$	**735,852**	$	811,771

During the year ended June 30, 2012, charges of $19,490 (2011 – $11,740) were recorded in cost of sales relating to obsolete, damaged or unsellable finished goods inventory.

There were no reversals of amounts previously charged to cost of sales in respect of write-downs of inventory for the years ended June 30, 2012 and June 30, 2011.

The cost of sales of the Company is broken down into its cash and non-cash components as follows:

		2012		2011
Operating expenses	**$**	**2,733,209**	$	2,762,779
Depreciation		**321,366**		331,928
	$	**3,054,575**	$	3,094,707

(Expressed in Canadian Dollars)

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	**–**	**21,976**	**-**	**1,050**	**–**	**13,087**	**36,113**
Balance as at June 30, 2012	**$ 69,285**	**$ 5,913,242**	**$ 1,307,826**	**$ 63,844**	**$ 519,599**	**$ 863,772**	**$ 8,737,568**
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	**2,199**	**289,548**	**53,955**	**6,594**	**51,960**	**55,778**	**460,034**
Balance as at June 30, 2012	**$ 69,009**	**$ 3,092,442**	**$ 1,275,121**	**$ 59,878**	**$ 347,404**	**$ 726,128**	**$ 5,569,982**
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
June 30, 2012	**$ 276**	**$ 2,820,800**	**$ 32,705**	**$ 3,966**	**$ 172,195**	**$ 137,644**	**$ 3,167,586**

Equipment includes assets under finance leases with a cost of $387,636 (2011 – $387,636) and accumulated depreciation of $70,334 (2011 – $53,058). Vehicles includes assets under finance leases with a cost of $494,694 (2011 – $494,694) and accumulated depreciation of $311,512 (2011 – $262,043).

(Expressed in Canadian Dollars)

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 June 30, 2012	**$ 1,935,268**	**$ 5,975**	**$ 1,941,243**
Accumulated 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 year	**–**	**–**	**–**
Balance as at June 30, 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
June 30, 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 (2011 – $100,000). During the year ended June 30, 2011, the Company redeemed a $100,000 term deposit in connection with a buy out of a finance lease. As at June 30, 2012, no term deposit has been pledged as security for finance leases (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 was to accrue at an interest rate of 2.5% per month commencing 30 days following the due date of January 31, 2012, compounded monthly, not in advance. On January 31, 2012, the Company repaid $100,000 plus $10,000 financing placement fee. There was no interest paid.

(Expressed in Canadian Dollars)

10. LONG-TERM DEBT

		2012		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 $9,750 plus interest maturing November 15, 2014, secured by the assets of Fort Garry (a)	**$**	**282,750**	$	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)		**57,250**		72,191
Discount loan, bearing interest at 10% per annum compounded semi-annually, $738,600 due July 31, 2012, secured by the assets of Russell and Fort Garry (c)		**731,719**		654,946
		1,071,719		1,126,887
Less: current portion of long-term debt		**(869,719)**		(138,000)
Long-term portion of long-term debt	**$**	**202,000**	$	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 year ended June 30, 2012, the Company recorded interest expense of $6,059 (2011 - $4,941) 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.

(Expressed in Canadian Dollars)

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 June 30, 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 loan extension 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. 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 year ended June 30, 2012, the Company recorded interest expense of $76,773 (2011 - $103,737) 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 comprehensive loss.

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

Fiscal Year		**Amount**
2013	**$**	**758,000**
2014		**138,000**
2015		**69,750**
2016		**3,250**
	$	**969,000**

11. FINANCE LEASE OBLIGATIONS

The Company finances certain property and equipment using finance leases which bear interest at rates ranging from 9.7% to 27.9% and expire on various dates through March 2015. Estimated future minimum lease payments under these finance leases are as follows:

Fiscal Year:		**Amount**
2013	**$**	**26,247**
2014		**21,756**
2015		**22,397**
Total minimum lease payments		**70,400**
Less: amount representing interest		**(9,278)**
Net minimum lease payments		**61,122**
Less: current portion of finance lease obligations		**(19,563)**
Long-term portion of finance lease obligations	**$**	**41,559**

(Expressed in Canadian Dollars)

12. CONVERTIBLE DEBENTURES

		2012		2011
Convertible debentures with a face value of $531,000, bearing interest at 10%, unsecured and due on November 4, 2012	$	**482,116**	$	372,028
Convertible debentures with a face value of $158,000, bearing interest at 10%, unsecured and due on December 3, 2012		**141,155**		110,606
Convertible debentures with a face value of $51,750, bearing interest at 10%, unsecured and due on December 24, 2012		**45,570**		35,753
Liability component of convertible debentures		**668,841**		518,387
Less: current portion		**(668,841)**		–
Long-term portion	$	**–**	$	518,387

During the year ended June 30, 2011, the Company completed, in three tranches, a private placement of convertible debentures (the “Debenture Offering” – see Note 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 year ended June 30, 2012:

Liability component		2012		2011
Balance, beginning of year	$	**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		**150,454**		69,634
Balance, end of year		**668,841**		518,387
Less: current portion		**–**		–
Long-term portion, end of year	$	**668,841**	$	518,387

Equity component		2012		2011
Balance, beginning of year	$	**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 year	$	**86,484**	$	86,484

(Expressed in Canadian Dollars)

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
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 paid finder's fees totalling $35,000 and incurred other share issuance costs totalling $14,140 in connection with the Private Placement in accordance with the policies of the TSX Venture Exchange.

On April 2, 2012, the Company issued 250,000 common shares in its capital as bonus shares to each of its two directors who provided personal guarantees for the $100,000 working capital loan from Business Development Bank of Canada (Note 10(b)).

(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 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 as selling general and administrative expense. There were no options re-priced in the year ended June 30, 2012.

During the year ended June 30, 2012, the Company granted 3,000,000 (2011 – 100,000) incentive stock options to key employees and directors exercisable at $0.10 (2011 – $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 (2011 – $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 (2011 – 5 years); forfeiture rate of 0% (2011 – 0%); risk-free interest rate of 1.50% (2011 – 1.97%); expected dividend yield of 0% (2011 – 0%) and expected stock price volatility of 128% (2011 – 87%). The Company recognized compensation cost of $82,844 (2011 – $54,246) as selling, general and administrative expense.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

(c) Stock Options (continued)

The estimated fair value of options granted to the Company's employees and directors is calculated at the grant date and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of non-employee awards is estimated at each reporting period until the final measurement date.

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

	2012			2011		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	**1,627,500**	**$**	**0.10**	2,245,000	$	0.41
Granted	**3,000,000**		**0.10**	100,000		0.10
Expired	**(550,000)**		**0.10**	–		–
Forfeited	**–**		**–**	(717,500)		0.23
Outstanding, end of year	**4,077,500**	**$**	**0.10**	1,627,500	$	0.10

At June 30, 2012, the following stock options are outstanding:

	Options Outstanding			**Options Exercisable**	
Exercise Price $	**Number of Shares**	**Weighted Average Remaining Life (in years)**	**Weighted Average Exercise Price $**	**Number of Shares**	**Weighted Average Exercise Price $**
0.10	**140,000**	**0.16**	**0.10**	**140,000**	**0.10**
0.10	**837,500**	**0.97**	**0.10**	**837,500**	**0.10**
0.10	**100,000**	**3.30**	**0.10**	**100,000**	**0.10**
0.10	**3,000,000**	**4.69**	**0.10**	**566,667**	**0.10**
	4,077,500	**3.74**	**0.10**	**1,644,167**	**0.10**

(d) Warrants

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

	2012			2011		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	**12,730,125**	**$**	**0.15**	6,665,087	$	0.25
Granted	**7,650,000**		**0.10**	12,730,000		0.15
Exercised	**(125)**		**0.25**	**–**		**–**
Expired	**–**		**–**	(6,664,962)		0.25
Outstanding, end of year	**20,380,000**	**$**	**0.13**	12,730,125	$	0.15

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

(d) Warrants (continued)

At June 30, 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	**$**	**0.15**	**November 4, 2012**
827,500		**0.15**	**December 3, 2012**
1,500,000		**0.15**	**December 23, 2012**
7,650,000		**0.10**	**January 20, 2013**
20,380,000	**$**	**0.12**	

(e) Agent Unit Warrants

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

	2012			2011		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	**2,120,200**	**$**	**0.08**	**–**	$	–
Granted	**–**		**–**	2,120,200		0.08
Expired	**–**		**–**	**–**		–
Outstanding, end of year	**2,120,200**	**$**	**0.08**	2,120,200	$	0.08

At June 30, 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**	

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 June 30, 2012, the unpaid dividend amount was $163,200 (2011 - $122,400). 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 were 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. INCOME TAXES

In assessing the realization of the Company's future income tax assets, management considers whether it is more likely than not that some portion of all of the future income tax assets will not be realized. The ultimate realization of future income tax assets is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future income tax assets considered realizable could change materially in the near term based on future taxable income during the loss carry-forward period.

(Expressed in Canadian Dollars)

15. INCOME TAXES (continued)

(a) Deferred Tax Assets and Liabilities

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

	2012	2011
Deferred tax assets:		
Non-capital losses carried forward	**$ 3,079,000**	$ 2,467,000
Tax value of property and equipment in excess of book value	–	260,000
Share issue costs available to be deducted for tax purposes	**63,000**	112,000
Accounting reserves not deducted for tax purposes	**1,000**	14,000
Other	**3,000**	3,000
	3,146,000	2,856,000
Unrecognized deferred tax assets	**(2,847,000)**	(2,431,000)
Net deferred tax assets	**299,000**	425,000
Deferred tax liabilities:		
Book value of property and equipment in excess of tax value	**(188,000)**	–
Book value of intangible assets in excess of tax value	**(432,000)**	(425,000)
Deferred tax liabilities	**(620,000)**	(425,000)
Net deferred tax assets (liabilities)	**$ (321,000)**	$ –

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

As at June 30, 2012, the Company has non-capital losses of approximately $12,191,000 (2011 – $9,804,000) which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities and expiring as follows:

Fiscal Year of Expiry	**Amount**
2014	**$ 52,000**
2015	**283,000**
2026	**257,000**
2027	**1,538,000**
2028	**1,696,000**
2029	**2,213,000**
2030	**1,831,000**
2031	**1,937,000**
2032	**2,384,000**
	$ 12,191,000

(Expressed in Canadian Dollars)

15. INCOME TAXES (continued)

(c) Reconciliation of Tax Rates

The Company is subject to Canadian federal and provincial taxes at an approximate rate of 25.75% (2011 – 27.50%). The reconciliation of the provision for income taxes at the statutory rate compared to the Company's income tax expense as reported is as follows:

		2012		2011
Loss before income taxes	**$**	**788,166**	$	1,521,511
Statutory tax rate		**25.75%**		27.50%
Expected income tax recovery at statutory rates		**203,000**		418,000
Permanent differences		**(68,000)**		(45,000)
Changes in tax rates		**(36,000)**		36,000
Changes in estimates and other		**(4,000)**		(21,000)
Change in unrecognized deferred tax assets		**(416,000)**		(388,000)
Income tax expense	**$**	**(321,000)**	$	–

16. LOSS PER SHARE

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

		2012		2011
Net loss and comprehensive loss	**$**	**(1,109,166)**	$	(1,521,511)
Dividends on exchangeable preferred shares		**(40,800)**		(40,800)
Net loss attributable to common shareholders	**$**	**(1,149,966)**	$	(1,562,311)

The weighted average number of shares outstanding used in the computation of loss per share for the year ended June 30, 2012 was 54,639,943 (2011 – 42,899,846). 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.

17. SUPPLEMENTAL CASH FLOW INFORMATION

		2012		2011
Cash paid for:				
Interest	**$**	**99,310**	$	127,354
Income taxes		**–**		–
Non-cash investing and financing activities:	**$**	**–**	$	–
Capital lease obligations recognized for assets under capital lease		**–**		106,982
Common shares issued for services		**–**		56,250

(Expressed in Canadian Dollars)

18. 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:

The compensation costs for key management personnel and companies related to them were recorded as follows:

		2012		2011
Management fees (Notes 18(a) and (b))	**$**	**(290,000)**	$	(257,250)
Directors fees (Note 18(c))		**(33,000)**		(83,000)
Share-based payments (Note 18(c))		**(82,844)**		(44,645)
	$	**(405,844)**	$	(384,895)

(a) During the year ended June 30, 2012, the Company incurred management fees of $45,000 to the CEO of the Company (2011 – $128,625) and $100,000 to a company controlled by the CEO (2011 – $nil). As at June 30, 2012, the Company owed $31,240 to the CEO and a company controlled by the CEO (2011 – $10,000), which is non-interest bearing, unsecured and due on demand.

(b) During the year ended June 30, 2012, the Company incurred management fees of $55,000 to the COO of the Company (2011 – $128,625) and $90,000 to a company controlled by the COO (2011 – $nil). As at June 30, 2012, the Company owed $52,435 to the COO and a company controlled by the COO (2011 – $10,000), which is non-interest bearing, unsecured and due on demand.

(c) During the year ended June 30, 2012, the Company granted 2,900,000 stock options to directors and officers and incurred director fees of $33,000 to the independent directors of the Company (2011 – $83,000). As at June 30, 2012, the Company owed $41,000 to the independent directors (2011 – $83,000), which is non-interest bearing, unsecured and due on demand.

(d) During the year ended June 30, 2012, the Company paid consulting fees of $21,000 to a company controlled by an independent director of the Company (2011 – $nil).

(e) During the year ended June 30, 2012, the Company incurred accounting fees of $125,000 to a company controlled by the CFO of the Company (2011 – $107,798). As at June 30, 2012, the Company owed $42,640 to this company, which is non-interest bearing, unsecured and due on demand.

(f) During the year ended June 30, 2012, the Company incurred salaries and wages expense of $97,707 relatives of directors and officers of the Company (2011 – $158,074). As at June 30, 2012, the Company owed $14,132 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.

19. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS

(a) Fair Values of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, restricted term deposits, other assets, bank indebtedness, accounts payable, dividend payable, interest payable on convertible debentures, 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 June 30, 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, restricted term deposits 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.

(Expressed in Canadian Dollars)

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

(b) Fair Value Measurements (continued)

Financial assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated balance sheet as of June 30, 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 June 30, 2012 $**
Assets:				
Cash and cash equivalents	29,199	–	–	29,199
Restricted term deposits	100,000	–	–	100,000
Liabilities:				
Bank indebtedness	35,793	–	–	35,793

(c) Financial Risks

(i) Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company maintains substantially all of its cash and cash equivalents and term deposits classified as other assets in the balance sheet with major financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. As at June 30, 2012, the Company has significant accounts receivable from one major customer totalling $299,105 (2011 - $308,379). The Company manages credit risk for trade and other receivables through established credit monitoring activities. As at June 30, 2012, the Company's maximum exposure to credit risk is the carrying value of cash and cash equivalents, accounts receivable and restricted term deposits.

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

	2012		2011	
	Over 90 days	**Total**	Over 90 days	Total
Provincial Liquor Boards	**$ -**	**$ 888,296**	$ 14,727	$ 1,011,127
Total	**$ -**	**$ 888,296**	$ 14,727	$ 1,011,127

(Expressed in Canadian Dollars)

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

(c) Financial Risks (continued)

(i) Credit Risk (continued)

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.

(ii) Liquidity Risk

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

Contractual undiscounted cash flow requirements for financial liabilities as at June 30, 2012 are as follows:

	Less Than 1 Year $	Years 2 and 3 $	Years 4 and 5 $	More Than 5 Years $	Total $
Bank indebtedness	**35,793**	–	–	–	35,793
Accounts payable and accrued liabilities	**1,442,437**	–	–	–	1,442,437
Dividend payable	**193,800**	–	–	–	193,800
Interest payable on convertible debentures	**55,557**	–	–	–	55,557
Long-term debt	**876,600**	207,750	3,250	–	1,087,600
Finance lease obligations	**26,247**	44,153	–	–	70,400
Convertible debentures	**740,750**	–	–	–	740,750
	3,371,184	251,903	3,250	–	3,626,337

As at June 30, 2012, the Company had a working capital deficiency of $1,623,456.

(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.

(Expressed in Canadian Dollars)

20. COMMITMENTS AND CONTINGENCIES

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

Fiscal Year		**Amount**
2013	$	400,983
2014		271,555
2015		251,754
2016		243,127
2017		256,720
	$	1,424,139

(b) As at June 30, 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 extended automatically on a quarterly basis, and is secured by a term deposit of $100,000 (see Note 8).

21. 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 (2011 - $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:

		2012		2011
Long-term debt	**$**	**1,071,719**	$	1,126,887
Finance lease obligations		**61,122**		113,541
Convertible debentures		**668,841**		518,387
Shareholders' equity		**3,335,839**		3,366,069
	$	**5,137,521**	$	5,124,884

22. MAJOR CUSTOMER

During the year ended June 30, 2012, the Company had sales of $3,553,659 (2011 - $3,466,000) to the Manitoba Liquor Control Commission which accounted for 42% of its gross revenues (2011 - 45%).

23. TRANSITION TO IFRS AND RECLASSIFICATIONS

As stated in Note 2, these consolidated 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 comparative information presented in these first annual consolidated financial statements for the year ended June 30, 2011 and the opening financial position as at July 1, 2010 (the "Transition Date") have been prepared in accordance with the accounting policies referenced in Note 2.

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:

<u>Share-based Payment</u>

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.

<u>Business Combination</u>

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

<u>Compound Financial Instruments</u>

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.

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:

<u>Estimates</u>

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 loss, statements of financial position and statements of cash flows for the year ended June 30, 2011 have been reconciled to IFRS, with the resulting differences explained below.

(Expressed in Canadian Dollars)

23. TRANSITION TO IFRS AND RECLASSIFICATIONS (Continued)

Reconciliation of Assets, Liabilities and Equity	Note	Previous GAAP	Effect of IFRS Transition	IFRS	Previous GAAP	Effect of IFRS Transition	IFRS
			July 1, 2010			June 30, 2011	
ASSETS							
Current							
Cash and cash equivalents		$ 42,552	$ –	$ 42,552	$ 29,101	$ –	$ 29,101
Accounts receivable		961,274	–	961,274	1,011,127	–	1,011,127
Inventories	a)	1,211,903	(71,360)	918,470	1,065,791	(73,685)	811,771
	b)		(222,073)			(180,335)	
Prepaid expenses and deposits		117,690	–	117,690	132,338	–	132,338
Due from related parties		45,392	–	45,392	15,402	–	15,402
		2,378,811	(293,433)	2,085,378	2,253,759	(254,020)	1,999,739
Property and Equipment	c)	3,652,166	21,892	3,896,046	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	1,935,268	–	1,935,268
Deferred Financing Cost		19,832	–	19,832	–	–	–
Restricted Term Deposits		200,000	–	200,000	100,000	–	100,000
		$ 8,184,462	$ (49,468)	$ 8,134,994	$ 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	2,090,406	–	2,090,406
Dividend payable		81,600	–	81,600	122,400	–	122,400
Demand loan		125,000	–	125,000	–	–	–
Interest payable on Convertible debentures		–	–	–	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
Current portion of finance lease obligations		97,395	–	97,395	44,091	–	44,091
		3,868,564	–	3,868,564	2,683,721	–	2,683,721
Long-term Debt		399,750	–	399,750	988,887	–	988,887
Finance Lease Obligations		41,842	–	41,842	69,450	–	69,450
Convertible Debentures		–	–	–	518,387	–	518,387
		4,310,156	–	4,310,156	4,260,445	–	4,260,445
SHAREHOLDERS' EQUITY							
Share capital		8,321,132	–	8,321,132	9,036,272	–	9,036,272
Shares Allotted but Unissued		–	–	–	25,440	–	25,440
Equity Component of Convertible Debentures		–	–	–	86,484	–	86,484
Exchangeable Preferred Shares		518,979	–	518,979	518,979	–	518,979
Contributed Surplus		3,002,301	–	3,002,301	3,278,779	–	3,278,779
Deficit	a)	(7,968,106)	(71,360)	(8,017,574)	(9,533,524)	(73,685)	(9,579,885)
	c)		21,892			27,324	
		3,874,306	(49,468)	3,824,838	3,412,430	(46,361)	3,366,069
		$ 8,184,462	$ (49,468)	$ 8,134,994	$ 7,672,875	$ (46,361)	$ 7,626,514

(Expressed in Canadian Dollars)

23. TRANSITION TO IFRS AND RECLASSIFICATIONS (Continued)

Reconciliation of Comprehensive Loss	**Note**	**Previous GAAP**	**Reclassifications**	**Effect of IFRS Transition**	**IFRS**
		June 30, 2011			
Revenues	e)	$ 7,745,228	$ –	$ 12,080	$ 7,757,308
Less: excise tax and provincial mark-up		1,883,436	–	–	1,883,436
Net revenues		5,861,792	–	12,080	5,873,872
Cost of sales	f)	3,067,923	26,784	–	3,094,707
Gross margin		2,793,869	(26,784)	12,080	2,779,165
Expenses					
Depreciation	c) f)	465,625	(331,928)	(5,432)	128,265
Selling, general and administrative	a) f)	3,510,710	305,144	2,325	3,814,576
	e)			(3,603)	
		3,976,335	(26,784)	(6,710)	3,942,841
Loss before other income (expense)		(1,182,466)		18,790	(1,163,676)
Other Income (Expense)					
Interest on demand loan		(40,223)	–	–	(40,223)
Interest on long-term debt and convertible debt		(283,962)	–	–	(283,962)
Other expense		(35,965)	–	–	(35,965)
Interest income		2,315	–	–	2,315
Other income	e)	15,683	–	(15,683)	–
		(342,152)	–	(15,683)	(357,835)
Net loss and comprehensive loss for the year		$ (1,524,618)	–	$ 3,107	$ (1,521,511)
Basic and diluted loss per common share		($0.04)	–	–	($0.04)
Weighted average number of common shares outstanding		42,899,846	–	–	42,899,846

23. TRANSITION TO IFRS AND RECLASSIFICATIONS (Continued)

a) Under pre-changeover Canadian GAAP, the Company included promotional and marketing materials to be used in the normal course of business in 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, 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 and $73,685 in equity as of July 1, 2010 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 and $180,335 increase in property, plant and equipment, and $222,073 and $180,335 decrease in inventory at July 1, 2010 and June 30, 2011 respectively. There is no impact on equity.

c) As a consequence of the application of the componentization rules 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 and $27,324 as at July 1, 2010 and June 30, 2011 respectively. The net impact of the adjustment is $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 on 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. 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 on equity.

f) In transitioning to IFRS, the Company has reclassified the depreciation charge for manufacturing property and equipment to cost of sales and certain selling and distribution costs to selling, general and administrative expense. For the year ended June 30, 2011, the impact of the reclassification adjustment is $26,784 increase in cost of sales and $26,784 decrease in gross margin, $331,928 decrease in depreciation and $305,144 increase in selling, general and administrative expense. There is no impact on net loss or equity.

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

24. SUBSEQUENT EVENT

Subsequent to June 30, 2012, the Company agreed to an one year extension (the “Extension”) and amendment to a loan agreement (the “Loan Agreement”) dated December 31, 2007, pursuant to which the lender (“Lender”), a shareholder of the Company, had provided to the Company a loan (the “Loan”) valued at maturity in the amount of $738,600 (see Note 10(c)).

The Extension is for one year, maturing on July 31, 2013 and bears interest at 10% per annum, calculated semi-annually. In consideration of the Lender’s agreement to amend and extend the Loan, the Lender will earn a bonus (the “Bonus”) of $24,374. Russell may repay the Loan at any time without penalty by paying the Loan Advance Amount together with accumulated interest and prorated Bonus.

The Loan is guaranteed by Russell Brewing Company Ltd. and Fort Garry Brewing Company Ltd. both wholly-owned subsidiaries of the Company. As security for the Loan, the Company will grant to the Lender a subordinated security agreement creating a security interest and charge over all of their respective property and assets subordinate to senior debt and senior security of up to $2.5 million plus capital lease obligations incurred for future acquisitions of equipment and other capital assets.