RUSSELL BREWERIES INC.
Management Discussion and Analysis
For the three months ended September 30, 2012

This Management's Discussion and Analysis ("MD&A") of Russell Breweries Inc. dated November 29, 2012 provides an analysis of Russell's results of operation and financial condition for the three months ended September 30, 2012. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements, and accompanying notes for the three months ended September 30, 2012 and with the audited consolidated financial statements and accompanying notes for the years ended June 30, 2012 and 2011. Additional information related to Russell Breweries Inc. is available on SEDAR at www.sedar.com and on the Company's website at www.russellbeer.com.

The unaudited condensed consolidated interim financial statements and related notes of the Company have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*. All financial amounts in this MD&A are in Canadian dollars, except as otherwise indicated.

This MD&A was approved and authorized for issuance by the Board of Directors on November 29, 2012.

FORWARD LOOKING STATEMENTS

This report contains forward-looking information that is based on the Company's plans, intentions and expectations. By definition, forward-looking information involves risks, uncertainties and assumptions and is not a guarantee of future performance. Actual results could differ significantly from those anticipated, and hence investors should use caution when considering this information and not to put undue reliance on forward-looking statements.

OVERVIEW

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

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BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS

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

On November 22, 2011, the Company announced financings of $500,000 in the form of equity units consisting of common shares and warrants to purchase common shares of the Company. On January 20, 2012, the Company completed the financing with gross proceeds totaling $765,000 – see Liquidity and Capital Resources: Financing.

On December 5, 2011, the Company and Storm Brewing, two of British Columbia's independent Craft Brewers, join together to release a new collaborative beer called The Big Smoke. This strong, smoky ale was jointly brewed by Storm Brewing and Russell Brewing using 10% Peat Smoked Malt and Bravo and Willamette Hops. This is a malt-forward beer with a big smoke aroma and a well-balanced hop finish. Limited edition, single-batch brew available in 650ml bottles through private liquor stores in BC. This beer is part of the new Collaboration Series which is a succession of small-batch brews created by independent brewers working together to create new beers that push the boundaries of taste.

On March 2, 2012, the Company released its new super-premium, single-batch beer - Nectar of the Gods Wheat Wine Ale. The entire batch was pre-sold and is currently available in select private retailers in Metro Vancouver. Nectar of the Gods Wheat Wine Ale is the first barrel-aged beer from the Company. The beer was carefully aged in Tennessee Whiskey barrels for over four months. The aging process provided the beer with layers of flavour complexity including a fruity-ester character and vanilla-like flavours and tannins.

On March 9, 2012, the Company granted incentive stock options to its employees, consultants, directors and officers on 3,000,000 common shares in its capital, exercisable for up to five years at a price of $0.10 per share. The options shall vest in accordance with the Company's stock option plan. The Company did not proceed with the 2,500,000 stock options announced on March 21, 2010.

On March 29, 2012**,** the Company host the production of the 2012 Vancouver Craft Beer Week (VCBW) Collaboration Ale at its facility in Surrey, BC. In celebration of BC's largest craft beer festival, thirty of BC's finest breweries banded together to create a unique Cascadian Brown Ale.

On April 2, 2012, the Company issued 125,000 common shares in its capital as bonus shares to each of its two directors who provided personal guaranties for a $100,000 working capital loan from the Business Development Bank of Canada.

On April 4, 2012, Fort Garry Brewing Company Ltd., a wholly owned subsidiary of the Company, introduced a new specialty beer to the Manitoba market called Fort Garry Kona Imperial Stout. This is the newest beer from the super-premium Fort Garry Brewmaster Series which is a group of small-batch, limited-edition beers brewed for craft beer enthusiasts. Fort Garry - Kona Imperial Stout is now available in limited supply in single-serve 650ml bottles at the stores of Manitoba Liquor Control Commission (MLCC).

On May 8, 2012, the Company won a silver medal at the prestigious World Beer Cup 2012 for its Russell IP'eh! India Pale Ale. This is the second time this beer has been honoured with a medal at the World Beer Cup – in 2010 it won bronze.

On May 24, 2012, the Company released the Rick August Russian Imperial Stout, Grand Prize Winner of the 2011 Golden Stag Home Brewing Contest.

On June 13, 2012, the Company won a silver medal for Nectar of the Gods Wheat Wine Ale at the Canadian Brewing Awards in Montreal on Saturday June, 2012 in the Wood and Barrel Aged Strong Beer category.Nectar of the Gods Wheat Wine Ale is the Company's first barrel-aged beer. Fort Garry Brewing Company, a wholly owned subsidiary of the Company, was also awarded a silver medal at the Canadian Brewing Awards for their Kona Imperial Stout as part of their new Brewmaster Series.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS (continued)

On July 13, 2012, the Company announced that it agreed to terms under a letter of intent for the initial non-exclusive rights to import, produce, package, use, market, sell and distribute Russell brands and branded merchandise with FVI Capital Inc. ("FVI") in China. The letter specifies the principal terms of a technology and trade mark license agreement ("Agreement") which includes an initial up-front licensing fee, to be paid by a new Company ("Licensee") being established by FVI to hold the license and ongoing royalties based on volume of beer produced up to 50,000 hectolitres . The Company will take an initial 20% equity position in Licensee. As part of the agreement, the new Company has a 48 month first matching option to acquire an exclusive license for the entire Chinese market for an additional license fee payment and ongoing per hectoliter royalty payments and the Company has an option to increase its stake in the Licensee to 25% at Fair Market Value within the same 48 month term.

On July 27, 2012, the Company announced that it agreed to a 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 Russell, had provided to the Company a loan (the "Loan") valued at maturity in the amount of $1,239,000. (see LIQUIDITY AND CAPITAL RESOURCES)

On October 9, 2012, the Company completed a non-exclusive technology and trade mark license agreement ("Agreement") with Russell Breweries (China) Inc. to import, produce, package, use, market, sell and distribute Russell brands in China, including Hong Kong and Taiwan. The principal terms of the Agreement includes use of name for the new company, an initial up-front licensing fee and ongoing royalties based on volume of beer produced and sold. In addition, the Company will subscribe for a 20% equity position in Licensee with an option to increase its position to 25%.

On November 2, 2012, the Company announced that on November 5, 2012 (the "Redemption Date"), the Company redeemed its convertible debentures (the "Convertible Debentures") maturing on November 5, 2012. The aggregate principal amount (the "Principal Amount") of the Convertible Debentures currently outstanding is $531,000.00 (see LIQUIDITY AND CAPITAL RESOURCES).

On November 22, 2012, Mr. Paul Robertson has resigned as a Director of the Company. On November 26, 2012, Mr. Perpinder Singh Patrola has been appointed to the Board of Directors and Mr. Robert Murray and Mr. Richard Shier have resigned as Directors.

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

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

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SELECTED INFORMATION

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

Selected Information	Three Months Ended 30-September-12	Three Months Ended 30-September-11	Three Months Ended 30-September-10
	$	$	$
Statement of Comprehensive Loss Data			
Gross Revenue	2,325,082	2,196,584	2,098,070
Net Sales (after excise tax and provincial mark-up)	1,806,789	1,656,235	1,591,316
Earnings (loss) before interest and other income, taxes, depreciation and amortization	147,646	117,650	146,190
Total income (loss) from continuing operations	(63,408)	(83,128)	(46,775)
Operating income (loss) per share	(0.00)	(0.00)	(0.00)
Net income (loss) and comprehensive income (loss)	(63,408)	(83,128)	(46,775)
Basic and diluted earnings (loss) per share	(0.00)	(0.00)	(0.00)
Statement of Financial Position Data			
Total assets	7,065,294	7,367,018	7,856,294
Total long term financial liabilities	246,310	913,726	402,029
Cash dividends declared per share	Nil	Nil	Nil

PERFORMANCE AND RESULTS OF OPERATIONS

Three Months Ended September 30, 2012 (“Q1 2013F” and “2013F YTD”)

The Company had a net loss of $63,408 for Q1 2013F compared to the net loss of $83,128 for the period ended September 30, 2011 (“Q1 2012F”). The decrease in net loss is primarily a result of $100,332 increase in gross margin, which is offset by $69,191 increase in selling, general and administrative expenses, and $10,039 increase in other expenses.

Gross sales for Q1 2013F were $2,325,082 up $128,498 or 6% compared to $2,196,584 for Q1 2012F. Net Sales for Q1 2013F were $1,806,789 up $150,554 or 9% compared to $1,656,235 for Q1 2012F. The increase in the sales volumes of the Company’s premium and super premium brands were key drivers for the increase in gross and net revenue, which reflects the Company’s recent marketing strategy with a focus on premium brands.

The gross margin for Q1 2013F increased $100,332 or 12% to $921,943 compared to $821,611 for Q1 2012F. The gross margin percentage of Q1 2013F was up 1% to 51% compared to 50% for Q1 2012F. The increase in gross margin is primarily a result of the continued sales growth in higher margin premium and super premium brands.

Selling, general and administration expenses for Q1 2013F were $854,841 up $69,191 or 9% compared to $785,650 for Q1 2012F. Certain categories showed a continued cost reduction as various improvements and operating efficiencies have been implemented since Q1 2011F. The major cost reductions are refundable container (decrease of $33,585 to negative $25,418 from $8,167), management fees (decrease of $12,365 to $60,135 from $72,500), bank charge (decrease $7,141 to $10,680 from $17,821), consulting fees (decrease $3,000 to $1,500 from $4,500), labour (decrease of $4,010 to $202,027 from $206,037), travel (decrease of $3,804 to $9,922 from $13,726), foreign exchange loss (decrease $8,381 to $3,938 gain from $4,443 expense), and insurance (decrease $1,632 to $8,172 from $9,804). In addition, advertising and promotion increased $49,251 to $209,412 from $160,161, rent and utilities increased $3,568 to $136,887 from $133,319, professional fees increased $21,596 to $62,898 from $41,302, office expense increased $12,893 to $47,527 from $34,634, shop supplies increased $7,384 to $13,974 from $6,590, and repairs and maintenance increased $11,234 to $15,282 from $4,048. The increase in professional fees is a result of $25,000 accrual for audit fees compared to $nil accrual for Q1 2012F. The increase in advertising and promotion, rent and utilities, office expense, shop supplies and repairs and maintenance is a result of increase of production and sales. The Company also included $30,857 (Q1 2012F: $nil) share based compensation in selling, general and administration expenses,

PERFORMANCE AND RESULTS OF OPERATIONS (continued)

Other expenses for Q1 2013F were up $10,039 to $95,153 compared to $85,114 for Q1 2012F. The increase is primarily a result of $12,864 increase in accretion of convertible debentures maturing in November 2012.

Summary of Quarterly Results

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

Fiscal Year Quarter	2013F Q1	2012F Q4	2012F Q3	2012F Q2	2012F Q1	2011F Q4	2011F Q3	2011F Q2
						Restated	Restated	Restated
	$	$	$	$	$	$	$	$
Net revenues	1,806,789	1,812,981	1,534,355	1,474,424	1,656,235	1,369,025	1,495,918	1,419,581
SG&A[1]	854,841	1,255,263	860,238	841,377	785,650	1,364,002	763,743	936,085
EBITDA[2]	147,646	29,704	(25,459)	(88,925)	117,650	(352,618)	(139,666)	(357,389)
Net income (loss)	(63,408)	(498,442)	(241,403)	(286,193)	(83,128)	(614,672)	(306,261)	(553,803)
Net earnings (loss) per share	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)

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

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

The Company has historically experienced a seasonal pattern in its operating results, with the second and third quarters historically exhibiting lower revenues. Q1 2013F net sales were $1,806,789 down $6,192 compared to the net sales of $1,812,981 for Q4 2012F. Q1 2013F net loss were $63,408 down $435,034 compared to the net loss of $498,442 for Q4 2012F. The decrease in net sales is due to seasonality. The decrease in net loss is a result of $321,000 decrease in deferred income tax expense. The results in any one quarter are not indicative of results in any other quarter, or for the year as a whole.

Other significant impacts on quarterly expense trends may be share-based compensation expense which is included in selling, general and administrative expenses as follows: Q1 2013F $30,857, Q4 2012F $53,959, Q3 2012F $28,885; Q2 2012F $nil, Q1 2012F $nil, Q4 2011F $14,246, Q3 2011F $nil, and Q2 2011F $40,000.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

At September 30, 2012, the Company had a net working capital deficit of $1,619,397. The Company has $27,494 of cash and $100,000 of restricted cash securing $100,000 of bank indebtedness. Liabilities include $1,404,412 of accounts payable and accrued liabilities, $18,519 of interest payable on convertible debentures, $1,057,711 of long-term debts, $716,419 of convertible debentures, and $90,628 of finance lease obligations. The Company has declared $173,400 dividends to its subsidiary's exchangeable preferred shareholders. The Company has not paid any dividends to its common share holders.

The Company has an operating line of credit, five finance leases, six operating leases, two term loans, one discount loan, and three convertible debentures. As at September 30, 2012 and the date of this MD&A, the Company is in compliance with all of these covenants.

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

LIQUIDITY AND CAPITAL RESOURCES (continued)

Cash Flow

Three Months Ended September 30, 2012 ("2013F YTD")

Net cash provided in operating activities in 2013F YTD was $30,899 compared to $246,914 cash provided in 2012F YTD, an increase in use of $216,015 due to $337,702 less cash collected from accounts receivable, and $64,054 more cash used in prepaid expenses and deposits, which is offset by $147,824 less cash paid to accounts payable and accrued liabilities, and $65,780 decrease in net loss.

Cash used in 2013F YTD for investing activities was $29,028 for purchasing equipment compared to $2,904 used in purchasing equipments in 2011F YTD.

During 2013F YTD, the Company received $62,752 cash from bank indebtedness, repaid $34,500 of long-term debts, and $13,309 of finance lease obligations, paid $18,519 interest on convertible debentures compared to repayment of$27,230 forbank indebtedness, repayments of $34,500 for long-term debts, $16,262 for finance lease obligations, and paid $18,519 interest on convertible debentures in 2012F YTD.

Outstanding Share Data

As at September 30, 2012, the Company had 62,230,562 common shares issued and outstanding. In addition, the Company had the following outstanding share data at the date of this MD&A:

Outstanding Share Data	Number of Common Shares	Exercise Price per Common Share	Expiry Dates
Issued and outstanding as at November 29, 2012	65,770,562	N/A	N/A
Stock options	3,937,500	$0.10	June 19, 2013 – March 9, 2017
Conversion of preferred shares(1)	1,405,560	$0.60	March 31, 2013
Penalty on preferred shares allotted but unissued(1)	68,000	N/A	N/A
Conversion of convertible debenture(2)	1,398,333	$0.15	December 3 – December 23, 2012
Warrants	9,977,500	$0.10 - $0.15	December 3, 2012 – January 20, 2013
Agent unit warrants	447,100	$0.08	December 3 – December 23, 2012
Agent warrants	447,100	$0.15	Two years from issuance of the Agent Unit
Fully Diluted as at November 29, 2012	83,451,655	N/A	N/A

(1) After five years (the "Exchange Date") the 68,000 preferred shares will automatically be exchanged into 16.67 common shares of the Company or earlier if certain events occur, including a change in control of the Company or an insolvency event in Russell. Russell will incur a penalty if it has not paid all cumulative dividends due and payable as of March 31, 2011 and for any unpaid dividends calculated each six months thereafter until the Exchange Date. The maximum penalty would result in one additional common share of the Company being exchanged for each Exchangeable Share. At the Exchange Date, the exchange ratio will also increase to account for any unpaid dividends at the Exchange Date such that the additional number of the Company's common shares to be issued is equal to the unpaid dividend amount divided by $0.60. As at September 30, 2012, the unpaid dividend amount was $173,400. The Company did not pay the dividend due and payable as of March 31, 2011. The maximum penalty may result in an aggregate of 68,000 additional common shares of the Company being issued at the Exchange Date.

(2) The Company issued convertible debentures (the "Convertible Debentures") in the aggregate principal amount of $740,750. The Convertible Debentures are convertible into common shares at a price of $0.15 per common share for a two-year period from the date of issue. On November 2, 2012, the Company announced that on November 5, 2012 (the "Redemption Date"), the Company redeemed its convertible debentures (the "Convertible Debentures") maturing on November 5, 2012. The aggregate principal amount (the "Principal Amount") of the Convertible Debentures currently outstanding is $531,000.00 (see LIQUIDITY AND CAPITAL RESOURCES).

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financing

(a) 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%, repayable in monthly installments of $1,750, maturing August 15, 2015, is secured by the assets of Fort Garry and supported by a guarantee made by two directors of the Company. In return for the guarantee, the Company is allowed to issue 250,000 common shares of the Company as bonus shares for a deemed value of $0.08 per share for a total value of $20,000, which was recorded as a discount against the value allocated to the loan. During the three months ended September 30, 2012, the Company repaid $5,250 plus interest of $1,196. The Company also recorded interest expense of $1,302 (2011 - $1,650) related to the accretion of the discounted value of the loan, which has been recorded as interest on long-term debt in the statement of operations. As at September 30, 2012, the outstanding balance of the loan is $53,301.

The Company also has a term bank loan with BDC, bearing interest at a floating base rate plus a variance of 1%, repayable in monthly installments of $9,750 plus interest maturing November 15, 2014, secured by the assets of Fort Garry. During the three monthr ended September 30, 2012, the Company repaid $29,250 plus interest of $4,196. As at September 30, 2012, the outstanding balance of the loan is $253,500.

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

On July 27, 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 $1,239,000.

The Extension is for one year, with $812,460 due on maturity on July 31, 2013. The Company has negotiated a discounted value or loan advance amount (the "Loan Advance Amount") of $738,600, that is calculated based on a 10% per annum interest rate, calculated semi-annually, with interest payable on maturity, resulting in a total loan value of $812,460 at maturity. In consideration of the Lender's agreement to amend and extend the Loan, the Lender will earn a bonus (the "Bonus") of $24,374 to be included in the Loan amount. 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.

During the three months ended September 30, 2012, the Company recorded interest expense of $19,191 (2011 - $18,764) 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.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financing (continued)

(c) 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 would 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.

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

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

On November 5, 2012 (the “Redemption Date”), the Company redeemed its convertible debentures (the “Convertible Debentures”) maturing on November 5, 2012. The aggregate principal amount (the “Principal Amount”) of the Convertible Debentures currently outstanding is $531,000.00.

On the Redemption Date, the Company will redeem the whole of the Principal Amount of the Convertible Debentures by issuing fully paid and non-assessable common shares (the “Common Shares”) in the capital of the Company, at a price equal to $0.15 per Common Share (the “Redemption”). The Company is entitled to redeem the Convertible Debentures without any action required on the part of holders (the “Holders”) of the Convertible Debentures, including the surrender of any certificates. On the Redemption Date, the Company will allot and issue, as fully paid and non-assessable shares of the Company, an aggregate of 3,540,000 Common Shares to the Holders.

The securities issued pursuant to the Redemption will be subject to a hold period of four months and one day from the date of issue in compliance with applicable securities laws and the rules of the TSX Venture Exchange.

(e) 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 totaling $35,000 and share issue cost totaling $14,140 in connection with the Private Placement in accordance with the policies of the TSX Venture Exchange.

Contractual Obligations, Commitments

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

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

	Less Than 1 Year **$**	Years 2 and 3 $	Years 4 and 5 $	More Than 5 Years $	Total $
Bank indebtedness	**98,545**	–	–	–	98,545
Accounts payable and accrued liabilities	**1,404,412**	–	–	–	1,404,412
Dividend payable	**193,800**	–	–	–	193,800
Interest payable on convertible debentures	**37,038**	–	–	–	37,038
Long-term debt	**842,100**	207,750	3,250	–	1,053,100
Finance lease obligations	**22,378**	67,404	12,970	–	102,752
Convertible debentures	**740,750**	–	–	–	740,750
	3,339,023	275,154	16,220	–	3,630,397

RELATED PARTIES

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

Currently, the Company is accruing $1,000 per month to each of three independent directors. The Company also pays $10,000 monthly management fees to a company controlled by the CEO of the Company and $10,000 monthly management fees to the COO of the Company. The Company pays $8,333 monthly professional fees to a company controlled by the CFO of the Company.

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Management fees (a) and (b)	**$ 60,000**	$ 72,500
Directors fees (e)	**9,000**	6,000
Share-based payments (e)	**30,857**	-
	$ 99,857	$ 78,500

RELATED PARTIES (continued)

(a) During the period ended September 30, 2012, the Company incurred management fees of $nil to the CEO of the Company (2011 – $26,250) and $30,000 to a company controlled by the CEO (2011 – $10,000). As at September 30, 2012, the Company owed $44,680 to the CEO and a company controlled by the CEO (2011 – $44,527), which is non-interest bearing, unsecured and due on demand.

(b) During the period ended September 30, 2012, the Company incurred management fees of $nil to the COO of the Company (2011 – $36,250) and $30,000 to a company controlled by the COO (2011 – $nil). As at September 30, 2012, the Company owed $65,875 to the COO and a company controlled by the COO (2011 – $45,050), which is non-interest bearing, unsecured and due on demand.

(c) During the period ended September 30, 2012, the Company granted nil and vested 500,000 stock options to directors and officers and key employees and incurred director fees of $9,000 to the independent directors of the Company (2011 – $6,000). As at September 30, 2012, the Company owed $50,000 to the independent directors (2011 – $89,000), which is non-interest bearing, unsecured and due on demand.

(d) During the period ended September 30, 2012, the Company paid consulting fees of $1,500 to a company controlled by an independent director of the Company (2011 – $4,500).

(e) During the period ended September 30, 2012, the Company incurred accounting fees of $25,000 to a company controlled by the CFO of the Company (2011 – $31,250). As at September 30, 2012, the Company owed $52,160 to this company (2011 - $35,692), which is non-interest bearing, unsecured and due on demand.

(f) During the period ended September 30, 2012, the Company incurred salaries and wages expense of $13,627 relatives of directors and officers of the Company (2011 – $34,583). As at September 30, 2012, the Company owed $16,346 to relatives of directors of the Company (2011 - $3,255), 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated 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 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.

Property, Plant and Equipment

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

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

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

Intangible Assets

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

RISKS AND UNCERTAINTIES

Credit Risk

The Company grants credit to its customers in the normal course of business. However as the major portion of the accounts receivable are held by the BCLDB, the MLCC, and AGLC, management believes exposure to credit risk is limited.

Competition

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

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

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

Government Regulation

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

Trends in Consumer Preferences and Attitudes

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

RISKS AND UNCERTAINTIES (continued)

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

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

Dependence on Key Personnel

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

Operating Hazards

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

Trade Regulations

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

Proprietary Rights

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

Seasonal Nature of Business

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

RISKS AND UNCERTAINTIES (continued)

Uncertainty of Additional Capital

In the past, the Company relied on the issuance of equity and debt securities to meet its capital requirements. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional financing is raised by the Company through the issuance of securities from treasury, control of the Control may change and security holders may suffer significant dilution. The Company also requires continued support from its lenders to maintain its financial condition. The loss of this support could limit expansion opportunities and put strain on the Company's continuing operations.