



RUSSELL BREWERIES INC.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED
MARCH 31, 2013 AND 2012**

UNAUDITED

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

RUSSELL BREWERIES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited; Expressed in Canadian Dollars)

	March 31, 2013	June 30, 2012
ASSETS		
Current		
Cash and cash equivalents	\$ 165,421	\$ 29,199
Accounts receivable	546,469	876,530
Inventories (Note 4)	859,008	735,852
Prepaid expenses and deposits	165,643	134,482
	1,736,541	1,776,063
PROPERTY AND EQUIPMENT (Note 5)	2,951,221	3,167,586
INTANGIBLE ASSETS (Note 6)	1,935,268	1,935,268
RESTRICTED TERM DEPOSITS (Note 7)	100,000	100,000
	\$ 6,723,030	\$ 6,978,917
LIABILITIES		
Current		
Bank indebtedness (Note 19(c))	\$ –	\$ 35,793
Accounts payable and accrued liabilities	1,063,464	1,442,437
Dividend payable (Note 13)	–	163,200
Interest payable on convertible debentures	–	18,519
Convertible debentures (Note 11)	–	668,841
Due to related parties	314,945	181,447
Current portion of long-term debt (Note 9)	925,840	869,719
Current portion of finance lease obligations (Note 10)	30,550	19,563
	2,334,799	3,399,519
LONG-TERM DEBT (Note 9)	102,091	202,000
FINANCE LEASE OBLIGATIONS (Note 10)	85,732	41,559
DEFERRED TAX LIABILITIES (Note 14)	321,000	321,000
	2,843,622	3,964,078
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 12)	11,327,816	9,772,163
SHARES ALLOTTED BUT UNISSUED (13)	–	5,440
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 11)	–	86,484
EXCHANGEABLE PREFERRED SHARES (Note 13)	–	518,979
SHARE-BASED PAYMENTS RESERVES	3,399,748	3,361,624
DEFICIT	(10,848,156)	(10,729,851)
	3,879,408	3,014,839
	\$ 6,723,030	\$ 6,978,917

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS AND CONTINGENCIES (Note 19)

Approved on behalf of the Board of Directors on May 30, 2013:

/s/ Andrew Harris

Andrew Harris, Director

/s/ Brian Harris

Brian Harris, Director

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

RUSSELL BREWERIES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS****(Unaudited; Expressed in Canadian Dollars)**

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
REVENUES (Note 21)	\$ 1,918,693	\$ 1,947,390	\$ 6,228,321	\$ 6,064,116
LESS: EXCISE TAX AND PROVINCIAL MARK-UP	379,006	413,035	1,371,315	1,399,102
NET REVENUES	1,539,687	1,534,355	4,857,006	4,665,014
COST OF SALES (Note 4)	588,622	710,082	2,059,490	2,247,016
GROSS MARGIN	951,065	824,273	2,797,516	2,417,998
EXPENSES				
Depreciation	27,631	37,762	99,397	103,769
Selling, general and administrative (Notes 12(c) and 17)	822,532	929,634	2,587,085	2,656,126
	850,163	967,396	2,686,482	2,759,895
NET INCOME (LOSS) BEFORE OTHER INCOME (EXPENSE)	100,902	(143,123)	111,034	(341,897)
OTHER INCOME (EXPENSE)				
Interest on long-term debt and convertible debt	(29,017)	(88,645)	(190,845)	(258,791)
Other expenses	1,000	(10,000)	1,000	(11,000)
Interest income	710	365	1,306	964
	(27,307)	(98,280)	(188,539)	(268,827)
NET INCOME (LOSS) BEFORE INCOME TAXES	73,595	(241,403)	(77,505)	(610,724)
INCOME TAXES				
Deferred income tax expense (Note 14)	–	–	–	–
NET INCOME (LOSS) AND COMPREHENSIVE LOSS FOR THE PERIOD	73,595	(241,403)	(77,505)	(610,724)
LOSS PER SHARE (Note 15)				
Basic and diluted	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.01)

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

RUSSELL BREWERIES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited; Expressed in Canadian Dollars)

	Share Capital		Allotted Shares	Convertible Debentures	Preferred Shares	Share-based payments reserves	Deficit	Total Shareholders' Equity
	Number of Shares	Value						
Balance, July 1, 2012	62,230,562	\$9,772,163	\$5,440	\$86,484	\$518,979	\$3,361,624	\$(10,729,851)	\$3,014,839
Comprehensive loss for the period	—	—	—	—	—	—	(77,505)	(77,505)
Conversion of convertible debentures	4,938,333	827,234	—	(86,484)	—	—	—	740,750
Conversion of preferred shares	1,133,560	518,979	—	—	(518,979)	—	—	—
Conversion of dividend payable on preferred shares	340,000	204,000	—	—	—	—	—	204,000
Conversion of penalty for unpaid interest on preferred shares	68,000	5,440	(5,440)	—	—	—	—	—
Fair value of stock options granted	—	—	—	—	—	38,124	—	38,124
Dividends on preferred shares	—	—	—	—	—	—	(40,800)	(40,800)
Balance, March 31, 2013	68,710,455	\$11,327,816	\$ —	\$ —	\$ —	\$3,399,748	\$(10,848,156)	\$3,879,408

	Share Capital		Allotted Shares	Convertible Debentures	Preferred Shares	Share-based payments reserves	Deficit	Total Shareholders' Equity
	Number of Shares	Value						
Balance, July 1, 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 period	—	—	—	—	—	—	(610,724)	(610,724)
For Cash								
Private placement, net of share issue cost	15,300,000	715,860	—	—	—	—	—	715,860
Exercise of warrants	125	31	—	—	—	—	—	31
Fair value of stock options granted	—	—	—	—	—	28,885	—	28,885
Dividends on preferred shares	—	—	—	—	—	—	(30,600)	(30,600)
Balance, March 31, 2012	61,980,562	\$9,752,163	\$25,440	\$86,484	\$518,979	\$3,307,664	\$(10,221,209)	\$3,469,521

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

RUSSELL BREWERIES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS****(Unaudited; Expressed in Canadian Dollars)**

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the period	\$ (77,505)	\$ (610,724)
Adjusted for non-cash items:		
Depreciation	339,432	345,163
Accretion of long-term debt	59,712	61,817
Accretion of convertible debentures	71,909	107,614
Accrued interest on convertible debentures	—	18,519
Share-based compensation	38,124	28,885
	431,672	(48,726)
Net changes in non-cash working capital items:		
Accounts receivable	330,061	116,242
Prepaid expenses and deposits	(31,161)	(41,203)
Inventories	(123,156)	28,798
Due to and from related parties	146,174	(4,586)
Accounts payable and accrued liabilities	(391,649)	(508,735)
	361,941	(458,210)
INVESTING ACTIVITIES		
Purchases of property and equipment	(28,169)	(22,520)
	(28,169)	(22,520)
FINANCING ACTIVITIES		
Common shares subscription	—	715,891
Interest payable on convertible debentures	(18,519)	(18,519)
Proceeds from demand loan	—	100,000
Repayment of demand loan	—	(100,000)
Proceeds from (repayment of) bank indebtedness	(35,793)	(49,344)
Repayment of long-term debt	(103,500)	(103,501)
Repayment of finance lease obligations	(39,738)	(40,066)
	(197,550)	504,461
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	136,222	23,731
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	29,199	29,101
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 165,421	\$ 52,832
CASH AND CASH EQUIVALENTS CONSIST OF:		
Demand deposits	\$ 165,421	\$ 52,832

SUPPLEMENTAL CASH FLOW INFORMATION (Note 16)

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

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012**

(Unaudited; Expressed in Canadian Dollars)

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 March 31, 2013, the Company had a working capital deficiency of \$598,258 and accumulated losses since inception of \$10,848,156. 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**a) Statement of Compliance**

These consolidated financial statements are prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*. These financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on May 30, 2013.

b) Presentation and Functional Currency

These consolidated financial statements are presented in Canadian dollars. Under International Financial Reporting Standards ("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 the condensed consolidated interim 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.

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012**

(Unaudited; Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the audited consolidated financial statements of the Company for the year ended June 30, 2012. These statements should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2012.

4. INVENTORIES AND COST OF SALES

		March 31, 2013		June 30, 2012
Finished goods	\$	137,905	\$	107,123
Work-in-progress		197,259		155,362
Raw materials		523,844		473,367
	\$	859,008	\$	735,852

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

		Three Months Ended March 31, 2013		Three Months Ended Mar 31, 2012		Nine Months Ended March 31, 2013		Nine Months Ended March 31, 2012
Operating expenses	\$	496,821	\$	630,180		1,819,455	\$	2,005,621
Depreciation		91,801		79,902		240,035		241,395
	\$	588,622	\$	710,082		2,059,490	\$	2,247,016

RUSSELL BREWERIES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012

(Unaudited; Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT

	Computer	Equipment	Leasehold improvements	Office furniture and fixtures	Vehicles	Returnable containers	Total
Cost							
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
Additions	—	53,727	—	—	42,815	26,526	123,068
Balance as at March 31, 2013	\$ 69,285	\$ 5,966,969	\$ 1,307,826	\$ 63,844	\$ 562,414	\$ 890,298	\$ 8,860,636
Accumulated Depreciation							
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
Depreciation	(13)	214,973	32,705	3,966	41,191	46,611	339,433
Balance as at March 31, 2013	\$ 68,996	\$ 3,307,415	\$ 1,307,826	\$ 63,844	\$ 388,595	\$ 772,739	\$ 5,909,415
Carrying amounts							
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
March 31, 2013	\$ 289	\$ 2,659,554	\$ —	\$ —	\$ 173,819	\$ 117,559	\$ 2,951,221

Equipment includes assets under finance leases with a cost of \$439,720 (June 30, 2012 – \$387,636) and accumulated depreciation of \$86,533 (June 30, 2012 – \$70,334). Vehicles includes assets under finance leases with a cost of \$537,508 (June 30, 2012 – \$494,694) and accumulated depreciation of \$351,825 (June 30, 2012 – \$311,512).

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012**

(Unaudited; Expressed in Canadian Dollars)

6. INTANGIBLE ASSETS

	Brands and Trademarks	Website	Total
Cost			
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
Balance as at March 31, 2013	\$ 1,935,268	\$ 5,975	\$ 1,941,243
Accumulated Depreciation			
Balance as at June 30, 2011	\$ –	\$ 5,975	\$ 5,975
Balance as at June 30, 2012	\$ –	\$ 5,975	\$ 5,975
Balance as at March 31, 2013	\$ –	\$ 5,975	\$ 5,975
Carrying amounts			
June 30, 2011	\$ 1,935,268	\$ –	\$ 1,935,268
June 30, 2012	\$ 1,935,268	\$ –	\$ 1,935,268
March 31, 2013	\$ 1,935,268	\$ –	\$ 1,935,268

7. RESTRICTED TERM DEPOSITS

A term deposit of \$100,000 has been pledged as security for a \$100,000 bank line of credit (June 30, 2012 – \$100,000).

8. 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.

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012**

(Unaudited; Expressed in Canadian Dollars)

9. LONG-TERM DEBT

	March 31, 2013	June 30, 2012
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)	\$ 195,000	\$ 282,750
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)	45,091	57,250
Discount loan, bearing interest at 10% per annum compounded semi-annually, \$812,460 due July 31, 2013, secured by the assets of Russell and Fort Garry (c)	787,840	731,719
	1,027,931	1,071,719
Less: current portion of long-term debt	(925,840)	(869,719)
Long-term portion of long-term debt	\$ 102,091	\$ 202,000

- (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 period ended March 31, 2013, the Company recorded interest expense of \$3,591 (2012 - \$4,667) related to the accretion of the discounted value of the loan, which has been recorded as interest on long-term debt in the statement of operations.
- (c) On December 31, 2007, the Company entered into a loan agreement pursuant to which the lender, a shareholder of the Company, provided a discounted loan to the Company valued at \$1,239,000 at maturity. Under the agreement, a notional principal amount of \$965,000 was assigned to the loan. In connection with the loan, the lender was entitled to a \$25,000 bonus which was deducted from the notional principal amount of \$965,000, resulting in net proceeds to the Company of \$940,000. The Company also issued 250,000 warrants to the lender, each warrant entitling the lender to purchase one common share of the Company at a price of \$0.65 per share for a period of two years expiring on December 31, 2009. Net proceeds of \$896,040 and \$43,960 were allocated to the loan and warrants, respectively, based on their relative fair values on December 31, 2007. The Company incurred cash debt issue costs of \$14,435 which were recorded as a discount against the value allocated to the loan.

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012**

(Unaudited; Expressed in Canadian Dollars)

9. 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. 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 was 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 was 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. 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.

During the period ended March 31, 2013, the Company recorded interest expense of \$56,121 (2012 - \$57,150) 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	\$ 34,500
2014	876,600
2015	69,750
2016	3,250
	\$ 984,100

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012**

(Unaudited; Expressed in Canadian Dollars)

10. FINANCE LEASE OBLIGATIONS

The Company finances certain property and equipment using finance leases which bear interest at rates ranging from 6.6% to 27.9% and expire on various dates through June 2016. Estimated future minimum lease payments under these finance leases are as follows:

<u>Fiscal Year:</u>	<u>Amount</u>
2013	\$ 5,070
2014	60,504
2015	48,277
2016	27,483
Total minimum lease payments	141,334
Less: amount representing interest	(25,052)
Net minimum lease payments	116,282
Less: current portion of finance lease obligations	(30,550)
Long-term portion of finance lease obligations	\$ 85,732

11. CONVERTIBLE DEBENTURES

	<u>March 31,</u> <u>2013</u>	<u>June 30,</u> <u>2012</u>
Convertible debentures with a face value of \$531,000, bearing interest at 10%, unsecured and due on November 4, 2012	\$ 531,000	\$ 482,116
Convertible debentures with a face value of \$158,000, bearing interest at 10%, unsecured and due on December 3, 2012	158,000	141,155
Convertible debentures with a face value of \$51,750, bearing interest at 10%, unsecured and due on December 24, 2012	51,750	45,570
Less: conversion	(740,750)	–
Liability component of convertible debentures	–	668,841
Less: current portion	–	(668,841)
Long-term portion	\$ –	\$ –

During the year ended June 30, 2011, the Company completed, in three tranches, a private placement of convertible debentures (the “Debenture Offering” – see Note 12(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.

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012**

(Unaudited; Expressed in Canadian Dollars)

11. CONVERTIBLE DEBENTURES (continued)

The following tables summarize the changes in the liability and equity components of the convertible debentures during the period ended March 31, 2013:

Liability component	March 31, 2013		June 30, 2012	
Balance, beginning of period	\$	668,841	\$	518,387
Accretion		71,909		150,454
Less: conversion		(740,750)		—
Balance, end of period		—		668,841
Less: current portion		—		(668,841)
Long-term portion, end of period	\$	—	\$	—

Equity component	December 31, 2012		June 30, 2012	
Balance, beginning of period	\$	86,484	\$	86,484
Gross proceeds from issuance		—		—
Amount allocated to the liability component		—		—
Direct issuance costs allocated to the equity component		—		—
Less: conversion		(86,484)		—
Balance, end of period	\$	—	\$	86,484

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

During the period ended March 31, 2013, the Company redeemed its convertible debentures maturing on November 4, 2012, December 3, 2012 and December 24, 2012. The aggregate principal amount of the convertible debentures outstanding was \$740,750 (see Note 12(b)).

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12. 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.

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.

During the period ended March 31, 2013, the Company redeemed its convertible debentures maturing on November 4, 2012, December 3, 2012 and December 24, 2012 (the "Redemption Dates"). On the Redemption Dates, the Company redeemed the whole of the principal amount of the convertible debentures by issuing a total of 4,938,333 fully paid and non-assessable common shares in the capital of the Company, at a price equal to \$0.15 per common share.

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

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 9(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.

During the period ended March 31, 2013, the Company granted nil and vested 1,277,778 (2012 – granted 3,000,000 and vested 166,667) incentive stock options to key employees and directors exercisable at \$0.10 per share expiring after five years of the grant date, pursuant to its stock option plan. The fair value of each option granted was \$0.05 calculated using the Black-Scholes option-pricing model at the date of grant using the following assumptions: expected option life for 5 years; forfeiture rate of 0%; risk-free interest rate of 1.50%; expected dividend yield of 0% and expected stock price volatility of 128%. During the period ended March 31, 2013, the Company recognized compensation cost of \$38,124 (2012 – \$28,885) as selling, general and administrative expense.

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 period ended March 31, 2013 and the year ended June 30, 2012 is presented below:

	March 31, 2013		June 30, 2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	4,077,500	\$ 0.10	1,627,500	\$ 0.10
Granted	–	–	3,000,000	0.10
Expired	(140,000)	0.10	(550,000)	0.10
Forfeited	(1,100,000)	0.10	–	–
Outstanding, end of period	2,837,500	\$ 0.10	4,077,500	\$ 0.10

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12. SHARE CAPITAL (continued)**(c) Stock Options (continued)**

At March 31, 2013, the following stock options are outstanding:

Options Outstanding			Options Exercisable		
Exercise Price \$	Number of Shares	Weighted Average Remaining Life (in years)	Exercise Price \$	Number of Shares	Weighted Average Exercise Price \$
0.10	837,500	0.22	0.10	837,500	0.10
0.10	2,000,000	3.94	0.10	1,444,444	0.10
	2,837,500	2.84	0.10	2,281,944	0.10

On August 29, 2012, 140,000 stock options exercisable at \$0.10 per share expired unexercised.

(d) Warrants

Warrant activity during the period ended March 31, 2013 and the year ended June 30, 2012 is presented below:

	March 31, 2013		June 30, 2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	20,380,000	\$ 0.13	12,730,125	\$ 0.15
Granted	—	—	7,650,000	0.10
Exercised	—	—	(125)	0.25
Expired	(20,380,000)	0.13	—	—
Outstanding, end of period	—	\$ —	20,380,000	\$ 0.13

On November 4, 2012, 10,402,500 warrants exercisable at \$0.15 per share expired unexercised.

On December 3, 2012, 827,500 warrants exercisable at \$0.15 per share expired unexercised.

On December 23, 2012, 1,500,000 warrants exercisable at \$0.15 per share expired unexercised.

On January 20, 2013, 7,650,000 warrants exercisable at \$0.10 per share expired unexercised.

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12. SHARE CAPITAL (continued)**(e) Agent Unit Warrants**

Agent unit warrants activity during the period ended March 31, 2013 and the year ended June 30, 2012 is presented below:

	March 31, 2013		June 30, 2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	2,120,200	\$ 0.08	–	\$ –
Granted	–	–	2,120,200	0.08
Expired	(2,120,200)	0.08	–	–
Outstanding, end of period	–	\$ –	2,120,200	\$ 0.08

On November 4, 2012, 1,673,100 agent unit warrants exercisable at \$0.08 per share expired unexercised. On December 3, 2012, 225,700 agent unit warrants exercisable at \$0.08 per share expired unexercised. On December 23, 2012, 221,400 agent unit warrants exercisable at \$0.08 per share expired unexercised.

13. EXCHANGEABLE PREFERRED SHARES

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

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

Russell will incur a penalty if it has not paid all cumulative dividends due and payable as of March 31, 2011 and for any unpaid dividends calculated each six months thereafter until the Exchange Date. The maximum penalty would result in one additional common share of the Company being exchanged for each Exchangeable Share. The exchange ratio will also increase to account for any unpaid dividends at the Exchange Date such that the additional number of the Company's common shares to be issued is equal to the unpaid dividend amount divided by \$0.60. As at March 31, 2013, the unpaid dividend amount was accumulated to \$204,000 (June 30, 2012 - \$163,200). 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.

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13. EXCHANGEABLE PREFERRED SHARES (continued)

On March 31, 2013, the Company exercised its right, pursuant to the Exchange Agreement, to purchase the Exchangeable Shares from the Investors. Each Exchangeable Share was exchanged for a total of 22.67 common shares in the capital of the Company. The Company issued, as fully paid and non-assessable shares of the Company, an aggregate of 1,541,560 Common Shares to the Investors, in order to purchase an aggregate of 68,000 Exchangeable Shares held by the Investors and to settle the \$204,000 unpaid dividend amount as well as the maximum penalty for not paying all cumulative dividends due and payable as of March 31, 2011.

14. INCOME TAXES

The Company has non-capital losses of approximately \$12,191,000 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:

<u>Fiscal Year of Expiry</u>	<u>Amount</u>
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

15. LOSS PER SHARE

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

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
Net loss and comprehensive loss	\$ (77,505)	\$ (610,724)
Dividends on exchangeable preferred shares	(40,800)	(30,600)
Net loss attributable to common shareholders	\$ (118,305)	\$ (641,324)

The weighted average number of shares outstanding used in the computation of loss per share for the period ended March 31, 2013 was 64,729,169 (2012 – 50,686,321). 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.

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16. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
Cash paid for:		
Interest	\$ 59,224	\$ 89,360
Income taxes	—	—
Non-cash investing and financing activities:		
Capital lease obligations recognized for assets under capital lease	\$ 94,898	\$ —
Common shares issued for services	—	—

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17. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
Management fees (Notes 17(a) and (b))	\$ (216,000)	\$ (217,500)
Directors fees (Note 17(c))	(15,000)	(24,000)
Accounting fees (Note 17(f))	(93,000)	(93,537)
Share-based payments (Note 17(c))	(38,124)	(28,885)
	\$ (362,124)	\$ (363,922)

- (a) During the period ended March 31, 2013, the Company incurred management fees of \$nil to the CEO of the Company (2012 – \$38,750) and \$108,000 to a company controlled by the CEO (2012 – \$70,000). As at March 31, 2013, the Company owed \$63,560 to the CEO and a company controlled by the CEO (2012 – \$11,617), which is non-interest bearing, unsecured and due on demand.
- (b) During the period ended March 31, 2013, the Company incurred management fees of \$nil to the COO of the Company (2012 – \$48,750) and \$108,000 to a company controlled by the COO (2012 – \$60,000). As at March 31, 2013, the Company owed \$63,555 to the COO and a company controlled by the COO (2012 – \$32,745), which is non-interest bearing, unsecured and due on demand.
- (c) During the period ended March 31, 2013, the Company granted nil (2012 – 3,000,000) and vested 1,277,778 stock options to directors and officers and key employees (2012 – 166,667) and incurred director fees of \$15,000 to the independent directors of the Company (2012 – \$24,000). As at March 31, 2013, the Company owed \$42,110 to the independent directors (2012 – \$32,877), which is non-interest bearing, unsecured and due on demand.
- (d) During the period ended March 31, 2013, the Company paid consulting fees of \$1,500 to a company controlled by an independent director of the Company (2012 – \$13,500).
- (e) During the period ended March 31, 2013, the Company incurred and accrued legal fees of \$62,188 to a company controlled by a director of the Company. As at March 31, 2013, the Company owed \$57,840 to this company, which is non-interest bearing, unsecured and due on demand.
- (f) During the period ended March 31, 2013, the Company incurred accounting fees of \$93,000 to a company controlled by the CFO of the Company (2012 – \$93,537). As at March 31, 2013, the Company owed \$87,880 to this company (2012 – \$20,620), which is non-interest bearing, unsecured and due on demand.
- (g) During the period ended March 31, 2013, the Company incurred salaries and wages expense of \$107,411 to relatives of directors and officers of the Company (2012 – \$102,083). As at March 31, 2013, the Company owed \$nil to relatives of directors of the Company (2012 – \$7,586), 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.

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18. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS**(a) Fair Values of Financial Instruments**

The carrying values of cash and cash equivalents, accounts receivable, restricted term deposits, other assets, bank indebtedness, accounts payable, dividend payable, convertible debentures, 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, and finance lease obligations at March 31, 2013 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.

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18. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS (continued)**(b) Fair Value Measurements (continued)**

Financial assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated balance sheet as of March 31, 2013 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 December 31, 2012 \$
Assets:				
Cash and cash equivalents	165,421	—	—	165,421
Restricted term deposits	100,000	—	—	100,000
Liabilities:				
Bank indebtedness	—	—	—	—

(c) Financial Risks**(i) Credit Risk**

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company maintains substantially all of its cash and cash equivalents and term deposits classified as other assets in the balance sheet with major financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. As at March 31, 2013, the Company has significant accounts receivable from one major customer totalling \$328,376 (June 30, 2012 - \$299,105). The Company manages credit risk for trade and other receivables through established credit monitoring activities. As at March 31, 2013, 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:

	March 31, 2013		June 30, 2012	
	Over 90 days	Total	Over 90 days	Total
Provincial Liquor Boards	\$ -	\$ 493,643	\$ -	\$ 888,296
Total	\$ -	\$ 493,643	\$ -	\$ 888,296

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18. 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 March 31, 2013 are as follows:

	Less Than 1 Year \$	Years 2 and 3 \$	Years 4 and 5 \$	More Than 5 Years \$	Total \$
Bank indebtedness	—	—	—	—	—
Accounts payable and accrued liabilities	1,063,464	—	—	—	1,063,464
Long-term debt	34,500	946,350	3,250	—	984,100
Finance lease obligations	5,070	108,781	27,483	—	141,334
	1,103,034	1,055,131	30,733	—	2,188,898

As at March 31, 2013, the Company had a working capital deficiency of \$598,258.

(iii) Interest Rate Price Risk

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

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19. COMMITMENTS AND CONTINGENCIES

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

Fiscal Year	Amount
2013	\$ 51,344
2014	271,555
2015	251,754
2016	243,127
2017	256,720
	\$ 1,074,500

- (b) As at March 31, 2013, 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 April 13, 2013 and extended automatically on a quarterly basis, and is secured by a term deposit of \$100,000 (see Note 7).

20. CAPITAL MANAGEMENT

The Company manages its capital structure in order to ensure sufficient resources are available to meet operational requirements. The Company is required to maintain term deposits of \$100,000 (June 30, 2012 - \$100,000) related to its bank line of credit (see Note 7). There are no other externally imposed capital requirements.

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

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

	March 31, 2013	June 30, 2012
Long-term debt	\$ 1,027,931	\$ 1,071,719
Finance lease obligations	116,282	61,122
Convertible debentures	-	668,841
Shareholders' equity	3,879,408	3,014,839
	\$ 5,023,621	\$ 5,137,521

21. MAJOR CUSTOMER

During the period ended March 31, 2012, the Company had sales of \$2,763,967 (2012 - \$2,551,630) to the Manitoba Liquor Control Commission which accounted for 44% of its gross revenues (2012 - 42%).

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22. SUBSEQUENT EVENTS

On May 17, 2013, the Company closed a non-brokered private placement (the "Private Placement") of units announced previously on March 18, 2013. Under the Private Placement, the Company issued 9,640,000 units (the "Units") at a purchase price of \$0.05 per Unit, for aggregate gross proceeds of \$482,000.00. Each Unit is comprised of one common share ("Common Share") in the capital of the Company, and one non-transferable share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one additional Common Share at a price of \$0.10 for a period of two years 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 securities issued pursuant to the Private Placement 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. The net proceeds from the Private Placement will be used for general working capital requirements.

Certain directors and officers of the Company have acquired Units under the Private Placement. Any such participation is considered to be a "related party transaction" as defined under Multilateral Instrument 61-101 ("MI 61-101"). The transaction is exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 as neither the fair market value of any Units issued to, nor the consideration paid by, such persons exceeds 25% of the Company's market capitalization.