RUSSELL BREWERIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

11th floor, 1050 West Pender Street, Vancouver BC, Canada V6E 3S7
Phone: 604.714.3600 Fax: 604.714.3669 Web: manningelliott.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Russell Breweries Inc.

We have audited the accompanying consolidated financial statements of Russell Breweries Inc. which comprise the consolidated statements of financial position as at June 30, 2013, June 30, 2012 and July 1, 2011 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended June 30, 2013 and June 30, 2012, and the related notes comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Russell Breweries Inc. as at June 30, 2013, June 30, 2012, and July 1, 2011 and its financial performance and cash flows for the years ended June 30, 2013 and June 30, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Other Matters
Without qualifying our opinion, we draw attention to Note 25 in the consolidated financial statements which explains that certain comparative information as at June 30, 2012 and July 1, 2011 and for the year ended June 30, 2012 has been restated.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

October 28, 2013

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT JUNE 30, 2013, JUNE 30 2012 AND JULY 1, 2011

(Expressed in Canadian Dollars)

	June 30, 2013	June 30, 2012 (Note 25)	July 1, 2011 (Note 25)
ASSETS			
Current			
Cash and cash equivalents	$ **213,452**	$ 29,199	$ 29,101
Accounts receivable	**1,124,666**	876,530	1,011,127
Inventories (Note 5)	**664,046**	735,852	811,771
Prepaid expenses and deposits	**143,981**	134,482	132,338
Due from related parties (Note 19)	**17,738**	–	15,402
	2,163,883	1,776,063	1,999,739
PROPERTY AND EQUIPMENT (Note 6)	**2,849,850**	3,167,586	3,591,507
INTANGIBLE ASSETS (Note 7)	**1,935,268**	1,935,268	1,935,268
RESTRICTED TERM DEPOSITS (Note 8)	**100,000**	100,000	100,000
LONG-TERM INVESTMENT (Note 9)	**100,000**	–	–
	$ **7,149,001**	$ 6,978,917	$ 7,626,514
LIABILITIES			
Current			
Bank indebtedness (Note 21(c))	$ **36,671**	$ 35,793	$ 144,875
Accounts payable and accrued liabilities	**1,416,363**	1,442,437	2,090,406
Dividend payable (Note 15)	**–**	163,200	122,400
Interest payable on convertible debentures	**–**	18,519	18,519
Convertible debentures (Note 13)	**–**	668,841	–
Due to related parties (Note 19)	**105,662**	181,447	125,430
Current portion of long-term debt (Note 10)	**966,226**	869,719	138,000
Current portion of finance lease obligations (Note 11)	**32,329**	19,563	44,091
	2,557,251	3,399,519	2,683,721
LONG-TERM DEBT (Note 10)	**68,609**	202,000	988,887
FINANCE LEASE OBLIGATIONS (Note 11)	**68,131**	41,559	69,450
CONVERTIBLE DEBT	–	–	518,387
UNEARNED LICENSE FEES (Note 12)	**81,250**	–	–
DEFERRED TAX LIABILITIES (Notes 16 and 25)	**729,000**	542,000	242,000
	3,504,241	4,185,078	4,502,445
SHAREHOLDERS' EQUITY			
SHARE CAPITAL (Note 14)	**11,783,304**	9,772,163	9,036,272
SHARES ALLOTTED BUT UNISSUED (Notes 10(b) and 15)	**–**	5,440	25,440
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 13)	**–**	86,484	86,484
EXCHANGEABLE PREFERRED SHARES (Note 15)	**–**	518,979	518,979
SHARE-BASED PAYMENTS RESERVES	**3,398,726**	3,361,624	3,278,779
DEFICIT	**(11,537,270)**	(10,950,851)	(9,821,885)
	3,644,760	2,793,839	3,124,069
	$ **7,149,001**	$ 6,978,917	$ 7,626,514

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 21 and 24)
SUBSEQUENT EVENTS (Note 26)

Approved on behalf of the Board of Directors on October 28, 2013:

*_/s/ Benjamin Li Yu_*	*_/s/ Peter H. Stafford_*
Benjamin Li Yu, Director	Peter H. Stafford, Director

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

(Expressed in Canadian Dollars)

		2013		2012 (Note 25)
REVENUES (Note 23)	**$**	**8,691,831**	$	8,416,964
LESS: EXCISE TAX AND PROVINCIAL MARK-UP		**1,959,605**		1,938,969
NET REVENUES		**6,732,226**		6,477,995
COST OF SALES (Note 5)		**3,147,820**		3,054,575
GROSS MARGIN		**3,584,406**		3,423,420
EXPENSES				
Depreciation		**120,775**		138,672
Selling, general and administrative (Notes 14(c) and 19)		**3,591,734**		3,711,816
		3,712,509		3,850,488
LOSS BEFORE OTHER INCOME (EXPENSE)		**(128,103)**		(427,068)
OTHER INCOME (EXPENSE)				
Interest on finance lease obligations		**(22,689)**		–
Interest on long-term debt and convertible debt		**(218,199)**		(351,115)
Other expenses		**(10,000)**		(11,000)
Interest income		**1,622**		1,017
Other income (Note 12)		**18,750**		–
		(230,516)		(361,098)
LOSS BEFORE INCOME TAXES		**(358,619)**		(788,166)
INCOME TAXES				
Deferred income tax expense (Note 16)		**(187,000)**		(300,000)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		**(545,619)**		(1,088,166)
LOSS PER SHARE (Note 17)				
Basic and diluted	**$**	**(0.01)**	$	(0.02)

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

(Expressed in Canadian Dollars)

	Share Capital							
	Number of Shares	Value	Allotted Shares	Convertible Debentures	Preferred Shares	Share-based payments reserves	Deficit	Total Shareholders' Equity
Balance, July 1, 2012	**62,230,562**	**$9,772,163**	**$5,440**	**$86,484**	**$518,979**	**$3,361,624**	**$(10,950,851)**	**$2,793,839**
Comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(545,619)**	**(545,619)**
For cash								
Private placement, net of share issue costs	**9,640,000**	**455,488**	**–**	**–**	**–**	**–**	**–**	**455,488**
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	**–**	**–**	**–**	**–**	**–**	**37,102**	**–**	**37,102**
Dividends on preferred shares	**–**	**–**	**–**	**–**	**–**	**–**	**(40,800)**	**(40,800)**
Balance, June 30, 2013	**78,350,455**	**$11,783,304**	**$ –**	**$ –**	**$ –**	**$3,398,726**	**$(11,537,270)**	**$3,644,760**

	Share Capital							
	Number of Shares	Value	Allotted Shares	Convertible Debentures	Preferred Shares	Share-based payments reserves	Deficit (Note 25)	Total Shareholders' Equity (Note 25)
Balance, July 1, 2011	46,680,437	$9,036,272	$25,440	$86,484	$518,979	$3,278,779	$(9,821,885)	$3,124,069
Comprehensive loss for the year	–	–	–	–	–	–	(1,088,166)	(1,088,166)
For cash								
Private placement, net of share issue cost	15,300,000	715,860	–	–	–	–	–	715,860
Exercise of warrants	125	31	–	–	–	–	–	31
Bonus shares	250,000	20,000	(20,000)	–	–	–	–	–
Fair value of stock options granted	–	–	–	–	–	82,845	–	82,845
Dividends on preferred shares	–	–	–	–	–	–	(40,800)	(40,800)
Balance, June 30, 2012	62,230,562	$9,772,163	$5,440	$86,484	$518,979	$3,361,624	$(10,950,851)	$2,793,839

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

(Expressed in Canadian Dollars)

CASH FLOWS PROVIDED BY (USED IN):		**2013**		2012 (Note 25)
OPERATING ACTIVITIES				
Net loss for the year	**$**	**(545,619)**	$	(1,088,166)
Adjusted for non-cash items:				
Deferred income tax expense		**187,000**		300,000
Depreciation		**442,738**		460,038
Accretion of long-term debt		**96,507**		82,832
Accretion of convertible debentures		**71,909**		150,454
Accretion of license fee earned		**(18,750)**		–
Accrued interest on convertible debentures		**–**		18,519
Share-based compensation		**37,102**		82,844
		270,887		6,521
Net changes in non-cash working capital items:				
Accounts receivable		**(248,136)**		134,597
Prepaid expenses and deposits		**(9,499)**		(2,144)
Inventories		**71,806**		75,919
Due to and from related parties		**(80,847)**		71,419
Accounts payable and accrued liabilities		**(38,750)**		(647,968)
		(34,539)		(361,656)
INVESTING ACTIVITIES				
Purchases of property and equipment		**(30,104)**		(36,117)
FINANCING ACTIVITIES				
Issuance of common shares		**455,488**		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		**878**		(109,082)
Repayment of long-term debt		**(133,391)**		(138,000)
Repayment of finance lease obligations		**(55,560)**		(52,419)
		248,896		397,871
INCREASE IN CASH AND CASH EQUIVALENTS		**184,253**		98
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**29,199**		29,101
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**213,452**	$	29,199
CASH AND CASH EQUIVALENTS CONSIST OF:				
Demand deposits	**$**	**213,452**	$	29,199

SUPPLEMENTAL CASH FLOW INFORMATION (Note 18)

1. NATURE OF OPERATIONS AND GOING CONCERN

Russell Breweries Inc. (the "Company") was incorporated under the laws of the Province of British Columbia, Canada on March 23, 2000. The head office and principal address of the Company are located at #202 - 13018 80th Avenue, Surrey, British Columbia, V3W 3A8. The Company produces beer primarily for sale to provincial liquor distribution organizations and entities engaged in the food and beverage industries within Canada. The Company's shares are traded on the TSX Venture Exchange (the "TSX.V").

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at June 30, 2013, the Company had a working capital deficiency of $393,368 and accumulated losses since inception of $11,537,270. 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 Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The audited annual financial statements were authorized for issuance by the Board of Directors on October 28, 2013.

b) Presentation and Functional Currency

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

c) Basis of Measurement

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

d) Significant Accounting Estimates and Judgments

The preparation of these financial statements requires management to make judgments in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the Financial Statements are described below. Management also makes assumptions and critical estimates. Critical estimates are those which are most subject to uncertainty and have the most significant risk of resulting in a material change to the carrying amounts of assets and liabilities within the next year. Judgments, assumptions and estimates are based on historical experience, business trends and all available information that management considers relevant at the time of the preparation of the Financial Statements. However, future events and their effects cannot be anticipated with certainty and so as confirming events occur, actual results could ultimately differ from assumptions and estimates. Such differences could be material.

The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of these Financial Statements.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION (continued)

(i) Significant judgments

Going Concern

Assessment of the Company's ability to continue as a going concern requires estimates of future cash flows and includes the consideration of other factors, the outcome of which is uncertain. Significant factors considered in the company's assessment of its ability to continue as a going concern is disclosed in Note 1.

Deferred income taxes

Deferred tax liabilities require management judgment in order to determine the amounts to be recognized. This includes assessing the timing of the reversal of temporary differences to which deferred income tax rates are applied.

Impairment assessment

Impairment indicators include a significant decline in an asset's market value, significant changes in the technological, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing under-performance of an asset. Where an impairment indicator exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of fair value less costs to sell and value in use. The impairment analysis requires the use of estimates and assumptions such as long-term growth rates, discounts rates, future capital requirements and operating performance. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

Long-term investment

The Company holds shares in another company as a long term investment and must use judgment to determine whether its ownership interest along with other factors (see Note 9), results in significant influence over the other company such that the Company will account for its long term investment using the equity method of accounting or the cost method of accounting.

(ii) Significant Estimates

Significant areas requiring the use of management estimates 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, and estimates used in calculating share-based compensation.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Russell Brewing Company Ltd. ("Russell") and Fort Garry Brewing Company Ltd. ("Fort Garry"). All inter-company balances and transactions have been eliminated upon consolidation.

b) Financial Instruments

(i) Cash and Cash Equivalents

Cash and cash equivalents, when applicable, is designated as fair value through profit or loss ("FVTPL") include cash on account, demand deposits and money market investments with maturities from the date of acquisition of 90 days or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value.

(ii) Trade Receivables and Payables

Trade receivables and payables are non-interest bearing and stated at carrying values, which approximate fair values due to their short terms to maturity. Where necessary, trade receivables include allowances for uncollectible amounts. Trade receivables are designated as loans and receivables and trade payables are designated as other financial liabilities.

(iii) Restricted Term Deposits and Bank Indebtedness

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

(iv) Long-Term Debt

Long-term debt is designated as other financial liabilities and initially recorded at total proceeds received less direct issuance costs. Long-term debt is subsequently measured at amortized cost calculated using the effective interest rate method.

(v) Convertible Debentures

Convertible debentures are considered a compound financial instrument and are designated as other financial liabilities. The Company follows the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component is determined by deducting the fair value of the liability component from the face principal amount. Direct issuance costs are allocated to each component based on these relative values. The liability component is subsequently measured at amortized cost and accreted to the face principal amount over the estimated term of the convertible debentures using the effective interest rate method.

(vi) Derivative Instruments

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value and designated as FVTPL. Unrealized gains and losses on derivatives are recorded in net earnings. Fair values for derivative instruments are determined using valuation techniques. These valuations use assumptions based on market conditions existing at the balance sheet date. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Inventories

Raw materials, supplies, finished goods and work-in-progress are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. The cost of finished goods and work-in-progress includes direct materials, labour and overhead costs.

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

d) Property and Equipment

(i) Depreciation Methods and Rates

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the useful lives of the assets which are estimated as follows:

Computer hardware and software	2-4	Years
Equipment	7-25	Years
Office furniture and fixtures	5	Years
Vehicles	10	Years
Refundable containers	7	Years

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

(ii) Repairs and Maintenance

Repairs and maintenance costs are charged to expense as incurred, except when these repairs significantly extend the life of an asset or result in an operating improvement. In these instances, the portion of these repairs relating to the betterment is capitalized as part of property and equipment.

e) Impairment of Non-financial Assets

The carrying amounts of items in property, plant and equipment, and intangible assets are reviewed for impairment at the end of each reporting date. If there are indicators of impairment, an evaluation is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less costs to sell and its value-in-use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash-generating unit level.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of Non-financial Assets (continued)

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

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

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

f) Revenue Recognition

Revenue is recognized when the significant risks and rewards of ownership are transferred to the provincial liquor boards or retail customers, persuasive evidence of an arrangement exists, the price is fixed or determinable and collection of the relevant receivable is probable, which is generally upon delivery of the Company's products. Anticipated product returns are provided for at the time of sale. Net revenue represents gross revenues less applicable excise taxes and fees levied by provincial liquor boards. Royalty revenue is recorded in accordance with the contract terms once it can be reliably measured and the collection is reasonably assured. License fee revenue is recorded as other income on a straight-line basis over the life of the related license agreement once it can be reliably measured and the collection is reasonably assured.

g) Share-Based Compensation

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

The Company grants stock options to executive officers, directors, employees and consultants pursuant to a stock option plan described in Note 14.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Share-Based Compensation (continued)

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

h) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the substantively enacted tax rates which apply when these differences are expected to reverse. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and the taxable entities intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

i) Earnings/Loss per Share

Basic earnings/loss per share is computed by dividing net earnings/loss by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of “in the money” stock options, warrants, agent warrants and agent unit options.

j) Financing Costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Debt issue costs are offset against the related financial instrument on the date of issuance. Costs relating to financial transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations. Costs incurred in connection with the modification of long-term debt are offset against the related debt or recognized as part of the gain or loss on extinguishment of the existing debt.

k) Leases

Leases are classified as either finance or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a finance lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a finance lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value at the beginning of such lease. Assets recorded under finance leases are amortized on a straight line basis over the estimated useful lives of the respective assets on commencement of use of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Provisions

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

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after July 1, 2013, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standards effective July 1, 2013

a) IFRS 10 Consolidated Financial Statements

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

b) IFRS 11 Joint Arrangements

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

c) IFRS 12 Disclosure of Interests in Other Entities

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

d) IFRS 13 Fair Value Measurement

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

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

New accounting standards effective July 1, 2013 (continued)

e) Amendments to Other Standards

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

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

Each of the new standards, IFRS 10 to 13 and the amendments to other standards, is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

New accounting standards effective July 1, 2015

IFRS 9 Financial Instruments

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

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

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

(Expressed in Canadian Dollars)

5. INVENTORIES AND COST OF SALES

		2013		2012
Finished goods	**$**	**113,662**	$	107,123
Work-in-progress		**190,540**		155,362
Raw materials		**359,844**		473,367
	$	**664,046**	$	735,852

During the year ended June 30, 2013, charges of $Nil (2012 – $19,490) were recorded in cost of sales relating to obsolete, damaged or unsellable finished goods inventory.

There were no reversals of amounts previously charged to cost of sales in respect of write-downs of inventory for the years ended June 30, 2013 and June 30, 2012.

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

		2013		2012
Operating expenses	**$**	**2,826,117**	$	2,733,209
Depreciation		**321,703**		321,366
	$	**3,147,820**	$	3,054,575

(Expressed in Canadian Dollars)

6. PROPERTY AND EQUIPMENT

	Computer	Equipment	Leasehold improvements	Office furniture and fixtures	Vehicles	Returnable containers	Total
Cost							
Balance as at July 1, 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	**–**	**48,461**	**1,731**	**–**	**42,815**	**31,867**	**124,874**
Balance as at June 30, 2013	**$ 69,285**	**$ 5,961,703**	**$ 1,309,557**	**$ 63,844**	**$ 562,414**	**$ 895,639**	**$ 8,862,442**
Accumulated Depreciation							
Balance as at July 1, 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	**276**	**288,288**	**32,750**	**3,966**	**54,921**	**62,409**	**442,610**
Balance as at June 30, 2013	**$ 69,285**	**$ 3,380,730**	**$ 1,307,871**	**$ 63,844**	**$ 402,325**	**$ 788,537**	**$ 6,012,592**
Carrying amounts							
July 1, 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
June 30, 2013	**$ –**	**$ 2,580,973**	**$ 1,686**	**$ –**	**$ 160,089**	**$ 107,102**	**$ 2,849,850**

Equipment includes assets under finance leases with a cost of $439,719 (2012 – $387,636) and accumulated depreciation of $88,650 (2012 – $70,334). Vehicles includes assets under finance leases with a cost of $537,509 (2012 – $494,694) and accumulated depreciation of $363,122 (2012 – $311,512).

(Expressed in Canadian Dollars)

7. INTANGIBLE ASSETS

	Brands and Trademarks	Website	Total
Cost			
Balance as at July 1, 2011	$ 1,935,268	$ 5,975	$ 1,941,243
Additions	–	–	–
Balance as at June 30, 2012	**1,935,268**	**5,975**	**1,941,243**
Additions	**–**	**–**	**–**
Balance as at June 30, 2013	**$ 1,935,268**	**$ 5,975**	**$ 1,941,243**
Accumulated Depreciation			
Balance as at July 1, 2011	$ –	$ 5,975	$ 5,975
Depreciation for the year	–	–	–
Balance as at June 30, 2012	**–**	**5,975**	**5,975**
Depreciation for the year	**–**	**–**	**–**
Balance as at June 30, 2013	**$ –**	**$ 5,975**	**$ 5,975**
Carrying amounts			
July 1, 2011	$ 1,935,268	$ –	$ 1,935,268
June 30, 2012	$ 1,935,268	$ –	$ 1,935,268
June 30, 2013	**$ 1,935,268**	**$ –**	**$ 1,935,268**

8. RESTRICTED TERM DEPOSITS

A term deposit of $100,000 has been pledged as security for a $100,000 bank line of credit (2012 – $100,000) (see Note 21(c)).

(Expressed in Canadian Dollars)

9. LONG-TERM INVESTMENT

On October 9, 2012, the Company completed a non-exclusive technology and trade mark license agreement ("License Agreement") with Russell Breweries (China) Inc. (the "Licensee"). Pursuant to the License Agreement, the Company subscribed for 20% of the common shares of the Licensee ("Licensee Common Shares") for $100,000.

The Company has used the cost method to account for its $100,000 subscription for a 20% interest in common shares of the Licensee as a long-term investment due to the fact that the Company has no significant influence over the Licensee's management or operations (see Note 12).

10. LONG-TERM DEBT

		2013	2012
Term bank loan, bearing interest at a floating base rate plus a variance of 1%, repayable in monthly installments of $9,750 plus interest prior to October 2010 and thereafter repayable in monthly installments of $9,750 plus interest maturing November 15, 2014, secured by the assets of Fort Garry (a)	**$**	**165,750**	$ 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)		**40,859**	57,250
Discount loan, bearing interest at 10% per annum compounded semi-annually, $836,834 due July 31, 2013, secured by the assets of Russell and Fort Garry (c)		**828,226**	731,719
		1,034,835	1,071,719
Less: current portion of long-term debt		**(966,226)**	(869,719)
Long-term portion of long-term debt	**$**	**68,609**	$ 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 a 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 a $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 issued 250,000 common shares of the Company as bonus shares with an estimated fair value of $0.08 per share for a total value of $20,000, which was recorded as a financing cost against the value allocated to the loan. During the year ended June 30, 2013, the Company recorded interest expense of $4,609 (2012 - $6,059) 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.

10. LONG-TERM DEBT (continued)

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.

The fair values of the warrants issued in connection with the loan were computed using the Black-Scholes option-pricing model. The Company may repay the loan at any time without penalty by paying the notional principal amount of $965,000 plus accumulated interest. As at June 30, 2013, the fair value of this early settlement option was estimated to be $nil.

On December 31, 2010, the Company entered into an amendment and loan extension agreement to the loan agreement dated December 31, 2007, pursuant to which the lender extended the maturity date to July 31, 2012 and reduced the loan amount to $738,600 from $1,239,000, provided that the Company repay the loan in the amount of $619,000 on January 1, 2011 (paid). Pursuant to the amended loan agreement, the lender provides to the Company a new loan valued at maturity in the amount of $738,600. A discounted value or loan advance amount of $620,000 is calculated based on a 10% per annum interest rate, calculated semi-annually, with interest payable on maturity resulting in a total loan value at maturity of $738,600. In consideration of the lender agreeing to amend and extend the loan, the lender will also earn a bonus of $22,500 to be included in the loan amount. The term of the loan is nineteen months. The Company may repay the loan at any time without penalty by paying the discounted loan advance amount of $620,000 together with accumulated interest.

On July 11, 2012, the Company agreed to a one year extension (the “Extension”) and amendment to the 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 Extension 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 finance lease obligations incurred for future acquisitions of equipment and other capital assets.

During the year ended June 30, 2013, the Company recorded interest expense of $96,507 (2012 - $76,773) 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.

(Expressed in Canadian Dollars)

10. LONG-TERM DEBT (continued)

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

Fiscal Year		**Amount**
2014	$	**974,834**
2015		**69,750**
2016		**3,250**
	$	**1,047,834**

11. FINANCE LEASE OBLIGATIONS

The Company finances certain property and equipment using finance leases which bear interest at rates ranging from 6.63% to 20.58% and expire on various dates through June 2016. Estimated future minimum lease payments under these finance leases are as follows:

Fiscal Year:		**June 30, 2013**		**June 30, 2012**
2014	$	**49,520**	$	**26,247**
2015		**48,277**		**21,756**
2016		**27,483**		**22,397**
Total minimum lease payments		**125,280**		**70,400**
Less: amount representing interest		**(24,820)**		**(9,278)**
Net minimum lease payments		**100,460**		**61,122**
Less: current portion of finance lease obligations		**(32,329)**		**(19,563)**
Long-term portion of finance lease obligations	$	**68,131**	$	**41,559**

12. UNEARNED LICENSE FEES

On October 2, 2012, the Company completed a non-exclusive technology and trade mark license agreement ("License Agreement") with Russell Breweries (China) Inc. (the "Licensee") to allow the Licensee to import, produce, package, use, market, sell and distribute Russell brands in China, including Hong Kong and Taiwan.

Pursuant to the License Agreement, the Company received an initial licensing fee of $100,000. In addition, the Company will be entitled to ongoing royalties of $23 per hectolitre of beer produced and sold by the Licensee. The term of the agreement is for four years and expires on October 1, 2016.

During the year ended June 30, 2013, the Company has recognized $nil in royalties and $18,750 in license fees earned under the agreement, which has been recorded as other income in the statement of operations. As at June 30, 2013, the unearned license fee is $81,250.

(Expressed in Canadian Dollars)

13. CONVERTIBLE DEBENTURES

		2013		2012
Convertible debentures with a face value of $531,000, bearing interest at 10%, unsecured and due on November 4, 2012	$	–	$	482,116
Convertible debentures with a face value of $158,000, bearing interest at 10%, unsecured and due on December 3, 2012		–		141,155
Convertible debentures with a face value of $51,750, bearing interest at 10%, unsecured and due on December 24, 2012		–		45,570
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 14(b)). Under the Debenture Offering, the Company issued convertible debentures (the “Convertible Debentures”) in the aggregate principal amount of $740,750. The Convertible Debentures were convertible into common shares at a price of $0.15 per common share for a two-year period from the date of issue. The Convertible Debentures bear interest at 10% per annum, payable quarterly in arrears.

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of $119,691 was determined by deducting the fair value of the liability component of $621,059 from the principal amount of $740,750. The fair value of the liability component was computed as the present value of future principal and interest payments discounted at a rate of 20% per annum.

The following tables summarize the changes in the liability and equity components of the convertible debentures during the years ended June 30, 2013 and 2012:

Liability component		**2013**		2012
Balance, beginning of year	$	**668,841**	$	518,387
Accretion		**71,909**		150,454
Less: conversion		**(740,750)**		–
Balance, end of year		–		668,841
Less: current portion		–		–
Long-term portion, end of year	$	–	$	668,841

Equity component		**2013**		2012
Balance, beginning of year	$	**86,484**	$	86,484
Less: conversion		**(86,484)**		–
Balance, end of year	$	–	$	86,484

13. CONVERTIBLE DEBENTURES (continued)

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

During the year ended June 30, 2013, the Company redeemed its convertible debentures maturing on November 4, 2012, December 3, 2012 and December 23, 2012. The aggregate principal amount of the convertible debentures fully settled was $740,750 (see Note 14(b)).

14. 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.

14. SHARE CAPITAL (continued)

b) Issued Share Capital (continued)

On January 20, 2012, the Company closed a non-brokered private placement (the "Private Placement"). Under the Private Placement, the Company issued 15,300,000 units (the "Units") at a purchase price of $0.05 per Unit, for aggregate gross proceeds of $765,000. Each Unit is comprised of one common share ("Common Share") in the capital of the Company, and one half of one non-transferable share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to purchase one additional Common Share at a price of $0.10 for a period of one year from closing the Private Placement. The term of the Warrants is subject to an acceleration right at the option of the Company, provided that the daily volume-weighted average trading price of the Common Shares is $0.15 or higher for at least 10 consecutive trading days and the Company has provided Warrant holders with 30 days prior written notice of the accelerated exercise date. The Company paid finder's fees totalling $35,000 and incurred other share issuance costs totalling $14,140 in connection with the Private Placement in accordance with the policies of the TSX Venture Exchange.

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

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 (See Note 15).

On May 17, 2013, the Company closed a non-brokered private placement (the "Private Placement"). 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. 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.

During the year ended June 30, 2013, the Company redeemed its convertible debentures maturing on November 4, 2012, December 3, 2012 and December 23, 2012 (the "Redemption Dates"). On the Redemption Dates, the Company fully redeemed the principal amount of the convertible debentures totaling $740,750 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.

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.

(Expressed in Canadian Dollars)

14. SHARE CAPITAL (continued)

c) Stock Options (continued)

During the year ended June 30, 2013, the Company granted nil (2012 – 3,000,000) and vested 1,222,220 (2012 – 666,668), net of forfeited incentive stock options to key employees and directors exercisable at $0.10 (2012 – $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 (2012 – $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 (2012 – 5 years); forfeiture rate of 0%~12.9% (2012 – 0%); risk-free interest rate of 1.50% (2012 – 1.50%); expected dividend yield of 0% (2012 – 0%) and expected stock price volatility of 128% (2012 – 128%). The Company recognized compensation cost of $37,102 (2012 – $82,844) 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 years ended June 30, 2013 and 2012 is presented below:

	2013			2012		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Outstanding, beginning of year	**4,077,500**	**$**	**0.10**	1,627,500	$	0.10
Granted	**–**		**0.10**	3,000,000		0.10
Expired	**(977,500)**		**0.10**	(550,000)		0.10
Forfeited	**(1,800,000)**		**–**	–		–
Outstanding, end of year	**1,300,000**	**$**	**0.10**	4,077,500	$	0.10

Certain directors and officers of the Company resigned resulting in forfeiture of 1,800,000 stock options as at June 30, 2013.

At June 30, 2013, the following stock options are outstanding:

	Options Outstanding			**Options Exercisable**	
Exercise Price $	**Number of Shares**	**Weighted Average Remaining Life (in years)**	**Weighted Average Exercise Price $**	**Number of Shares**	**Weighted Average Exercise Price $**
0.10	**1,300,000**	**3.69**	**0.10**	**1,155,556**	**0.10**

(Expressed in Canadian Dollars)

14. SHARE CAPITAL (continued)

d) Warrants

Warrant activity during the years ended June 30, 2013 and 2012 is presented below:

	2013			2012		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	**20,380,000**	**$**	**0.13**	12,730,125	$	0.15
Granted	**9,640,000**		**0.10**	7,650,000		0.10
Exercised	**–**		**–**	(125)		0.25
Expired	**(20,380,000)**		**0.13**	–		–
Outstanding, end of year	**9,640,000**	**$**	**0.10**	20,380,000	$	0.13

At June 30, 2013, the following warrants were outstanding entitling the holders the right to purchase one common share for each warrant held:

Number of Warrants		**Weighted Average Exercise Price**	**Expiry Date**
9,640,000	**$**	**0.10**	**May 17, 2015**

e) Agent Unit Warrants

Agent unit warrants activity during the years ended June 30, 2013 and 2012 is presented below:

	2013			2012		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	**2,120,200**	**$**	**0.08**	2,120,200	$	0.08
Expired	**(2,120,200)**		**0.08**	**–**		–
Outstanding, end of year	**–**	**$**	**–**	2,120,200	$	0.08

15. EXCHANGEABLE PREFERRED SHARES

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

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

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

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.

16. INCOME TAXES

In assessing the realization of the Company's deferred income tax assets, management considers whether it is probable that the deferred income tax asset will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, and projected deferred taxable income in making this assessment. The amount of deferred income tax assets considered realizable could change materially in the near term based on future taxable income during the loss carry-forward period.

(Expressed in Canadian Dollars)

16. INCOME TAXES (continued)

a) Deferred Tax Assets and Liabilities

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

	2013	2012 (Note 25)
Deferred tax assets:		
Non-capital losses carried forward	**$ 2,972,000**	$ 2,859,000
Tax value of property and equipment in excess of book value	**177,000**	135,000
Tax value of intangible asset in excess of book value	**4,000**	4,000
Share issue costs available to be deducted for tax purposes	**58,000**	63,000
Accounting reserves not deducted for tax purposes	–	1,000
Other	–	3,000
	3,211,000	3,065,000
Unrecognized deferred tax assets	**(3,211,000)**	(2,849,000)
Net deferred tax assets	–	216,000
Deferred tax liabilities:		
Book value of property and equipment in excess of tax value	**(290,000)**	(322,000)
Book value of intangible assets in excess of tax value	**(439,000)**	(436,000)
Deferred tax liabilities	**(729,000)**	(758,000)
Net deferred tax assets (liabilities)	**$ (729,000)**	$ (542,000)

b) Non-Capital Losses Carried Forward and Expiration Dates

As at June 30, 2013, the Company has non-capital losses of approximately $11,431,000 which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities and expiring as follows:

Fiscal Year of Expiry	**Amount**
2014	**$ 52,000**
2015	**283,000**
2026	**257,000**
2027	**750,000**
2028	**1,696,000**
2029	**2,213,000**
2030	**1,831,000**
2031	**1,937,000**
2032	**1,572,000**
2033	**840,000**
	$ 11,431,000

(Expressed in Canadian Dollars)

16. INCOME TAXES (continued)

c) Reconciliation of Tax Rates

The Company is subject to Canadian federal and provincial taxes at an approximate rate of 25.25% (2012 – 27.50%) for the year ended June 30, 2013. The reconciliation of the provision for income taxes at the statutory rate compared to the Company's income tax expense as reported is as follows:

		2013		2012 (Note 25)
Loss before income taxes	**$**	**358,619**	$	788,166
Statutory tax rate		**25.25%**		25.75%
Expected income tax recovery at statutory rates		**91,000**		203,000
Permanent differences		**(25,000)**		(68,000)
Changes in tax rates		**122,000**		(36,000)
Changes in estimates and other		**(13,000)**		(6,000)
Change in unrecognized deferred tax assets		**(362,000)**		(393,000)
Income tax expense	**$**	**(187,000)**	$	(300,000)

17. LOSS PER SHARE

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

		2013		2012
Net loss and comprehensive loss	**$**	**(545,619)**	$	(1,088,166)
Dividends on exchangeable preferred shares		**(40,800)**		(40,800)
Net loss attributable to common shareholders	**$**	**(586,419)**	$	(1,128,966)

The weighted average number of shares outstanding used in the computation of loss per share for the year ended June 30, 2013 was 67,704,933 (2012 – 54,639,943). 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.

18. SUPPLEMENTAL CASH FLOW INFORMATION

		2013		2012
Cash paid for:				
Interest	**$**	**67,863**	$	99,310
Income taxes		**–**		–
Non-cash investing and financing activities:	**$**	**–**	$	–
Finance lease obligations recognized for assets under finance lease		**94,898**		–
Investment in Licensee (Note 9)		**100,000**		–
Common shares issued for convertible debentures		**827,234**		–
Common shares issued for exchangeable preferred shares		**518,979**		–
Common shares issued for penalty for unpaid interest on preferred shares		**5,440**		–
Common shares issued for dividend payable on preferred shares		**204,000**		–

(Expressed in Canadian Dollars)

19. 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:

		2013		2012
Management fees (Notes 19(a) and (b))	**$**	**(290,000)**	$	(290,000)
Directors fees (Note 19(c))		**(20,356)**		(33,000)
Legal fees (Note 19(e))		**(118,629)**		–
Accounting fees (Note 19 (f))		**(125,000)**		(125,000)
Share-based payments (Note 19(c))		**(37,102)**		(80,083)
	$	**(591,087)**	$	(528,083)

a) During the year ended June 30, 2013, the Company incurred management fees of $nil to the CEO of the Company (2012 – $45,000) and $145,000 to a company controlled by the CEO (2012 – $100,000). As at June 30, 2013, the Company owed $5,592 to the CEO and a company controlled by the CEO (2012 – $31,240), which is non-interest bearing, unsecured and due on demand.

b) During the year ended June 30, 2013, the Company incurred management fees of $nil to the former COO of the Company (2012 – $55,000) and $145,000 to a company controlled by the former COO (2012 – $90,000). As at June 30, 2013, the Company owed $1,804 to the former COO and a company controlled by the former COO (2012 – $52,435), which is non-interest bearing, unsecured and due on demand.

c) During the year ended June 30, 2013, the Company granted nil stock options to directors and officers (2012 – 2,900,000) and incurred director fees of $20,356 (2012 – $33,000). As at June 30, 2013, the Company owed $26,119 to independent directors (2012 – $41,000), which is non-interest bearing, unsecured and due on demand.

d) During the year ended June 30, 2013, the Company paid consulting fees of $1,500 to a company controlled by an independent director of the Company (2012 – $21,000).

e) During the year ended June 30, 2013, the Company incurred and accrued legal fees of $118,629 to a company controlled by a director of the Company. As at June 30, 2013, the Company owed $44,255 to this company (2012 – $nil), which is non-interest bearing, unsecured and due on demand.

f) During the year ended June 30, 2013, the Company incurred accounting fees of $125,000 to a company controlled by the CFO of the Company (2012 – $125,000). As at June 30, 2013, the Company owed $23,498 to this company (2012 – $42,640), which is non-interest bearing, unsecured and due on demand.

g) During the year ended June 30, 2013, the Company incurred salaries and wages expense of $131,758 and accounting fees of $10,560 relatives of directors and officers of the Company (2012 – $103,744). As at June 30, 2013, the Company owed $4,394 to relatives of directors of the Company (2012 – $14,132), which is non-interest bearing, unsecured and due on demand.

19. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

h) As at June 30, 2013, the Company is owed $17,738 (2012 - $15,189) from a company controlled by an officer and director of the Company. The amounts are 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.

20. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS

a) Fair Values of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable due from related parties, restricted term deposits, bank indebtedness, accounts payable, and due to and from 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 June 30, 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.

(Expressed in Canadian Dollars)

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

b) Fair Value Measurements (continued)

Financial assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated balance sheet as of June 30, 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 June 30, 2013 $**
Assets:				
Cash and cash equivalents	213,452	–	–	213,452
Restricted term deposits	100,000	–	–	100,000
Liabilities:				
Bank indebtedness	36,671	–	–	36,671

c) Financial Risks

(i) Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company maintains substantially all of its cash and cash equivalents and term deposits classified as other assets in the balance sheet with major financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. As at June 30, 2013, the Company has significant accounts receivable from one major customer totalling $379,715 (2012 - $299,105). The Company manages credit risk for trade and other receivables through established credit monitoring activities. As at June 30, 2013, the Company's maximum exposure to credit risk is the carrying value of cash and cash equivalents, accounts receivable, due from related parties and restricted term deposits.

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

	2013		2012	
	Over 90 days	**Total**	Over 90 days	Total
Provincial Liquor Boards	**$ 3,057**	**$ 666,290**	$ –	$ 888,296
Total	**$ 3,057**	**$ 666,290**	$ –	$ 888,296

(Expressed in Canadian Dollars)

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

c) Financial Risks (continued)

(i) Credit Risk (continued)

The Company has a concentration of credit risk because a majority of its accounts receivable are from provincial liquor boards, under provincially regulated industry sale and payment terms. The Company is not exposed to significant credit risk as payment in full is typically collected by provincial liquor boards at the time of sale and receivables are with government agencies. While substantially all of the Company's accounts receivable are from provincial government liquor authorities, the timing of receipts of large balances may vary significantly from period to period.

(ii) Liquidity Risk

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

Contractual undiscounted cash flow requirements for financial liabilities as at June 30, 2013 are as follows:

	Less Than 1 Year **$**	Years 2 and 3 $	Years 4 and 5 $	More Than 5 Years $	Total $
Bank indebtedness	**36,671**	–	–	–	36,671
Accounts payable and accrued liabilities	**1,416,363**	–	–	–	1,416,363
Long-term debt	**974,834**	73,000	–	–	1,047,834
Finance lease obligations	**49,520**	75,760	–	–	125,280
	2,477,388	148,760	–	–	2,626,148

As at June 30, 2013, the Company had a working capital deficiency of $393,368.

(iii) Interest Rate Price Risk

Certain of the Company's long-term debt instruments, finance lease obligations and convertible debentures are subject to interest rate price risk as they carry fixed rates of interest. The Company's interest rate risk management policy is to purchase highly liquid investments with a term to maturity of three months or less on the date of purchase, when the instrument is not required as security for another financial obligation.

(iv) Interest Rate Cash Flow Risk

Certain of the Company's long-term debt instruments and bank indebtedness are subject to interest rate cash flow risk as they carry variable rates of interest. A plus or minus 1% change in market interest rates would not have a significant effect on the Company's loss and comprehensive loss for the year.

(Expressed in Canadian Dollars)

21. 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
2014	$ **347,315**
2015	**365,807**
2016	**342,963**
2017	**323,138**
2018	**323,138**
	$ **1,702,361**

b) At June 30, 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 plus 1%, matures on October 31, 2015 and is extended automatically on a quarterly basis, and is secured by a term deposit of $100,000 (see Note 8).

22. 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 (2012 - $100,000) related to its bank line of credit (see Note 8). There are no other externally imposed capital requirements.

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

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

		2013		2012
Long-term debt	**$**	**1,034,835**	$	1,071,719
Finance lease obligations		**100,460**		61,122
Convertible debentures		–		668,841
Shareholders' equity		**3,644,760**		2,793,839
	$	**4,780,055**	$	4,595,521

23. MAJOR CUSTOMER

During the year ended June 30, 2013, the Company had sales of $3,920,450 (2012 - $3,553,659) to the Manitoba Liquor Control Commission which accounted for 45% of its gross revenues (2012 - 42%).

24. CONTINGENT LIABILITY

During the year, a claim was made against the Company from a company controlled by a former director of the Company in relation to legal services provided over the last two years and services provided pursuant to the Legal Service Agreement dated April 1, 2013 in the amount of $62,961. In addition, severance of an amount equal to six months pursuant to the Legal Service Agreement was also considered in the claim. The claim may or may not proceed past the demand stage. If the claim does proceed, it will more than likely be settled.

25. RESTATEMENT

During the year ended June 30, 2013, the Company identified an error which occurred in 2003 related to the expiry dates of certain non-capital losses which can be carried forward to apply against future years taxable income for Canadian income tax purposes. The Company has retroactively restated its prior years' figures going back to 2002 to correct the error which resulted in an increase in deferred income tax liabilities and deficit in the amount of $221,000 as at June 30, 2012 (July 1, 2011 - $242,000) and an increase in deferred income tax expense and loss and comprehensive loss of $300,000 for the year then ended. There was no effect on the previously reported loss per share for the year ended June 30, 2012 as a result of the restatement.

26. SUBSEQUENT EVENTS

a) On July 31, 2013, the Company repaid $206,834 of a loan (the "Loan") entered into on July 11, 2012, with a shareholder of the Company (the "Lender") in the amount of $836,834 due on July 31, 2013, and negotiated to further amend and extend repayment of the balance of $650,000 (the "Loan Amount") as follows: a 10% per annum interest rate, calculated semi-annually, repayable in monthly installments of $17,500 plus interest, subject to a penalty of $17,500 for each missed monthly installment payment, and maturing July 31, 2016. In consideration of the Lender agreeing to amend and extend the Loan, the Lender will also earn a bonus of $20,000 to be included in the Loan Amount.

The Loan is guaranteed by Russell Brewing Company Ltd. and Fort Garry Brewing Company Ltd., both wholly-owned subsidiaries of the Company. As further security for the Loan, the Company and its Canadian subsidiaries 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 finance lease obligations incurred for future acquisitions of equipment and other capital assets.

The Company may repay the Loan at any time without penalty by paying the discounted Loan Amount outstanding together with accrued interest and prorated bonus.

b) On August 19, 2013, the Company terminated the Management Services Agreement ("Termination Agreement") dated January 1, 2011 with MSI Marketing Services International Inc. Pursuant to the Termination Agreement, the Company is committed to pay compensation which includes monthly fees of $12,000 commencing September 2, 2013 to September 2, 2014, a one-time lump sum payment for unpaid vacation of $18,000 payable by September 3, 2013, provide a dozen beer on a monthly basis for three years commencing after date of termination, an option to purchase a vehicle owned by the Company at fair market value and continuation of benefits coverage until September 2, 2014. In addition, any contributions to the Employee Share Purchase Plan will cease effective September 1, 2013.

26. SUBSEQUENT EVENTS (continued)

c) On September 3, 2013, the Company entered into a bridge loan agreement (the "Bridge Loan Agreement") with the spouses of certain directors of the Company (collectively, the "Lenders") whereby the Lenders will provide the Company with a loan facility in the aggregate amount of CDN$100,000 (the "Bridge Loan"). The Bridge Loan will bear interest at a rate of 9.0% per annum calculated and compounded semi-annually. The term of the Bridge Loan will be one year from the date of the Bridge Loan Agreement and the principal and accrued interest shall be due and payable on the earlier of: (i) the expiry of the term of the Bridge Loan, or (ii) the occurrence of an event of default in the Bridge Loan Agreement. The Bridge Loan may be prepaid, at any time, without premium or penalty.

Pursuant to the terms of the Bridge Loan Agreement, the Company intends to issue and allot to each of the Lenders such number of common shares (the "Bonus Shares") in the capital of the Company equivalent to 20% of the dollar amount of each Bridge Loan which shall be priced, when issued and allotted, in accordance with the policies of the TSX Venture Exchange. The Bonus Shares are to be issued and allotted to compensate the Lenders for the financial risk associated with granting the Bridge Loan to the Company.

Pursuant to the terms of the Bridge Loan Agreement, the Company and its Canadian subsidiaries have each executed a security agreement in favour of the Lenders, granting security interests in all present and future undertaking and property of the Company and each Canadian subsidiary, as applicable.

The proceeds of the Loan will be used for general working capital.

d) Subsequent to June 30, 2013, 1,250,000 stock options exercisable at $0.10 per share were forfeited due to the resignation of certain directors, officers, and employees.