RUSSELL BREWERIES INC.
Management Discussion and Analysis
For the three months ended December 31, 2010

The following discussion and analysis prepared as of March 1, 2011 should be read in conjunction with the unaudited consolidated interim financial statements for the nine months ended December 31, 2010 and 2009, audited consolidated financial statements and related notes and Management Discussion and Analysis and for the fiscal years ended June 30, 2010 and 2009.

FORWARD LOOKING STATEMENTS

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

OVERVIEW

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

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS

The Company acquired Fort Garry Brewing Company Ltd. ("Fort Garry") on October 22, 2007 - see Acquisition of Fort Garry contained in the next section.

On February 19, 2008 the Company launched the sale of cans, comprising 6 x 355 ml aluminum cans, into select private liquor stores located in British Columbia in the lower mainland, Whistler, Vancouver Island, Bowen Island and the Sunshine Coast.

On March 31, 2008, the Company's s wholly-owned subsidiary, Russell Brewing Company Ltd. ("RBC"), completed a brokered private placement for 68,000 Exchangeable Non-Voting Preferred Shares (the "Exchangeable Shares") at a price of $10.00 per Exchangeable Share, raising gross proceeds of $680,000. RBC used the net cash proceeds of $540,375, after cash issuance costs totaling $139,625, for equipment purchases and for general working capital – see Liquidity and Resources: Financing.

On May 9, 2008, RBC expanded distribution to Winnipeg, Manitoba. Draught products available include Russell Cream Ale, Russell Honey Blonde Ale and Russell Lemon Ale. Packaged products available for retail through the MLCC stores include 355ml six-pack cans of Russell Cream Ale and Russell Honey Blonde.

On July 15, 2008, the Company acquired additional 7,000 sq ft of office and warehouse space in Surrey BC. The new facility, located at 81Ave and 130 Street will be used for storage of finished goods and as a logistics and distribution center for British Colombia. The new space will enable the Company to expand its capacity from 16,000 hectolitres to 25,000 hectolitres. This new space will be perfect for the Company with excellent loading bays and road access. The net result will be increased savings in our logistics department through improved efficiencies.

On August 5, 2008, the Company commenced shipping 6x355 ml cans of its award-winning Cream Ale to the Government operated BC liquor stores throughout British Columbia. On January 13, 2009, the Company launched a 12 can pack – a collection of the four signature beers. Russell Premium Craft Collection pack includes: Extra Special Lager, Pale Ale, Honey Blonde Ale and our award winning Cream Ale. On May 5, 2009, the Company launched a new series of small-batch limited release beers. The first in the series is a classic India Pale Ale named - Russell IP'eh!

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS (continued)

On June 8, 2009 the Company closed a rights offering, whereby 6,665,087 units were issued at a price of $0.15 per unit for gross proceeds of $999,763. Each unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at an exercise price of $0.25 per common share at any time commencing June 9, 2010 and ending June 8, 2011 – see Liquidity and Resources: Financing.

On June 15, 2009, the Company launched six pack bottles of new Cactus Lime Lager for immediate distribution in the provinces of British Columbia and Manitoba. On June 22, 2009, the Company launched bottles of its very popular summer draught beer, Russell Lemon Ale.

On September 3, 2009, the Company commenced distribution in Alberta with the introduction of the award winning Russell Cream Ale and Cactus Lime Lager in all Cactus Club Cafe's as well as distribution of the Cactus Lime Lager in Liquor Depot and Liquor Barn outlets.

On September 8, 2009, the Company was awarded sixth place on Business in Vancouver's ("BIV") top 100 fastest – growing companies for 2009. On September 25, 2009，the Company was awarded three medals at Canadian Brewing Awards Gala in Toronto for brands from its regional breweries - Russell Brewing Company ("RBC") in British Columbia and Fort Garry Brewing ("Fort Garry") in Manitoba. A silver medal was awarded to RBC in the North American Style Blonde/Golden Ale category for the Russell Honey Blonde Ale and a bronze medal awarded in the North American Style Lager category for its Rocky Mountain Pilsner. A silver medal was awarded to Fort Garry in the North American Dark Lager category for Fort Garry Rouge. Judging of the awards was registered by the Beer Judge Certification Program (BJCP) which certifies and ranks beer judges through examination and monitoring processes.

On October 6, 2009, the Company signed a five year beer sponsorship agreement with Global Spectrum Facility Management, L.P., the agent on behalf of the City of Abbotsford and the operator and manager of the Abbotsford Entertainment and Sports Centre.

On December 17, 2009, the Company began shipping 6 pack bottles of Chambar Ale as part of its co-packing agreement with Chambar Restaurant to produce a Belgian style beer for the take home market. Chambar Ale is now available in 6 pack bottles in Vancouver through select restaurants and boutique liquor retailers.

On April 10, 2010, the Company claimed two medals at the Brewers Association (BA) World Beer Cup 2010, a global beer competition that evaluates beers from around the world and recognizes the most outstanding beers being produced in the world today. The Company received a bronze medal in the English-Style India Pale Ale beer style category for its Russell IP'EH! plus a bronze medal in the Scottish-Style Pale Ale category for its Wee Angry Scottish Ale. World Beer Cup 2010 winners were selected by an international panel of 179 beer judges from 27 countries. An impressive field of 3,401 entries from 642 breweries in 44 countries made up the competition. More than 3,800 breweries in 100 countries were invited to compete.

In October 2010, the Company claimed a silver medal for the Russell Brewmaster Series beer, 'A Wee Angry Scotch Ale' at the 8th annual Canadian Brewing Awards (CBA) in Toronto.

On October 5, 2010, the Company announced financings of $1,000,000 in the form of convertible debentures and $1,000,000 in the form of equity units consisting of common shares and warrants to purchase common shares of the Company. In December, the Company completed the financing with gross proceeds totaling $1,218,880 – see Liquidity and Resources: Financing.

On January 10, 2011, the Company released Blood Alley Bitter, the most recent beer in the Russell Brewmaster Series. Blood Alley Bitter is now available in British Columbia in kegs and 650ml bottles through private liquor stores and select pubs and restaurants. Blood Alley Bitter is an Extra Special Bitter (ESB) style of beer named after a notorious cobblestone laneway in Vancouver's Gastown district. This well balanced beer has rich, robust roasted malt flavours and a crisp bitter finish.

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SELECTED INFORMATION

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

Results for the quarterly period ended:	**Six Months Ended December 31, 2010**	**Six Months Ended December 30, 2009**	**Six Months Ended December 30, 2008**
	Unaudited	Unaudited and restated	Unaudited and restated
	$	$	$
Income Statement Data			
Gross Revenue	3,892,758	4,219,810	3,955,936
Net Sales (after excise tax and provincial mark-up)	3,007,280	3,220,313	3,049,654
Earnings (loss) before interest and other income, taxes, depreciation and amortization	(212,801)	71,494	(356,671)
Total income (loss) from continuing operations	(599,644)	(295,918)	(752,470)
Operating income (loss) per share	(0.02)	(0.01)	(0.03)
Net income (loss)	(599,644)	(295,918)	(752,470)
Basic and diluted earnings (loss) per share	(0.02)	(0.01)	(0.03)
Balance Sheet Data			
Total assets	8,781,232	8,158,946	8,809,844
Total long term financial liabilities	1,587,276	1,635,522	1,776,732
Cash dividends declared per share	Nil	Nil	Nil

RESTATEMENT OF PRIOR PERIOD FIGURES

During the year ended June 30, 2010, the Company determined that it was more appropriate to recognize amortization of property and equipment using the straight-line method as it better reflected the economic usage of the related assets. The Company previously recognized amortization using the declining balance method. As a result of the change in accounting policy, the comparative financial statements for the period ended December 31, 2009 have been restated as follows:

For the six months ended December 31, 2009	As Previously Reported	Change	As Restated
Statement of Operations:			
Amortization	$ 507,749	$ (223,464)	$ 284,285
Net income (loss)	(519,382)	223,464	(295,918)
Earnings (loss) per share – basic and diluted	(0.02)	(0.00)	(0.02)
Deficit, beginning of period	8,039,463	(1,477,221)	6,562,242
Deficit, end of period	8,579,245	(1,700,685)	6,878,560
Balance Sheet:			
Property and equipment	2,111,533	1,700,685	3,812,218
Deficit	$ 8,579,245	$(1,700,685)	$ 6,878,560

RECLASSIFICATIONS

Certain 2009 figures have been reclassified to conform to the financial statement presentation adopted for the period ended December 31, 2010.

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PERFORMANCE AND RESULTS OF OPERATIONS

The Three Months Ended December 31, 2010 (“Q2 2011F”)

Net Sales for Q2 2011F were $1,419,581 up $33,228 or 4.2% compared to $1,386,353 for the three months ended December 31, 2009 (“Q2 2010F”). The net sales increase is primarily a result of shipping more products to LRS and Agent account customers, to which less provincial markups apply.

The gross margin for Q2 2011F was down $218,157 or 27.38% to $578,696 compared to $796,853 for Q2 2010F. The gross margin percentage of Q2 2011F was down 16.71% to 40.77% compared to 57.48% for Q2 2010F. The decrease in gross margin is primarily a result of the product mix shipped with higher costs associated to packaging in Q2 2011F, which is not necessarily permanent.

Selling, general and administration expense for Q2 2011F are stayed at $890,000 level compared to Q2 2010F. Most categories show a continued cost cut, a strong improvement in efficiency while the stock based compensation increases to $40,000 from $nil compared to Q2 2010F. The major cost reductions are advertising and promotion decrease of $25,029 to $205,461 from $230,490, freight and administrative labour decrease of $22,477 to $207,302 from $229,779, and professional fees decrease of $8,901 to $89,531 from $98,432. The continued decrease across major expenses is a result of implementation of an expense control system since Q1 2010F

The Company had a net loss of $514,806 for Q2 2011F compared to the net loss restated of $300,351 for Q2 2010F. The increase in net loss is primarily a result of the increase in packaging cost in Q2 2011F.

The Six Months Ended December 31, 2010 (“2011F YTD”)

Net Sales for 2011F YTD were $3,007,280 down $213,033 or 6.62% compared to $3,220,313 for the six months ended December 31, 2009 (“2010F YTD”). The net sales decrease is primarily a result not shipping any product to BC Place vs the same period in 2010F as a result of the expiry of a three year BC Lions sponsorship contact.

The gross margin for 2011F YTD was down $343,979 or 18.92% to $1,473,983 compared to $1,817,962 for 2010F YTD. The gross margin percentage of 2011F YTD was down 7.44% to 49.01% compared to 56.45% for 2010F YTD. The decrease in gross margin is primarily a result of decrease in net sales in Q1 2011F and the product mix shipped with higher costs associated to packaging in Q2 2011F, which is not necessarily permanent.

Selling, general and administration expense for 2011F YTD decreased $59,684 or 3.42% to $1,686,784 compared to $1,746,468 for 2010F YTD. The decrease was primarily a result of advertising and promotion decrease of $71,837 to $407,189 from $479,026, freight and administrative labour decrease of $48,207 to $410,001 from $458,208, and professional fees decrease of $30,679 to $117,474 from $148,153, which was offset by the stock based compensation increase of $40,000 to $40,000 from $nil, consulting fees increase of $13,133 to $12,180 from $953 recovery, and office expense increase of $11,348 to $63,316 from $51,968. The continued decrease across major expenses is a result of implementation of an expense control system since Q1 2010F.

The Company had a net loss of $599,644 for 2011F YTD compared to the net loss restated of $295,918 for 2010F YTD. The increase in net loss is primarily a result of the increase in packaging cost in Q2 2011F.

PERFORMANCE AND RESULTS OF OPERATIONS (continued)

Summary of Quarterly Results

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

Fiscal Year Quarter	2011F Q2	2011F Q1	2010F Q4	2010F Q3	2010F Q2	2010F Q1	2009F Q4	2009F Q3
				Restated	Restated	Restated	Restated	Restated
	$	$	$	$	$	$	$	$
Gross revenues								
Net revenues	1,419,581	1,587,699	1,600,802	1,385,239	1,386,353	1,833,960	1,462,736	1,061,631
EBITDA[(1)]	(318,669)	105,868	(590,907)	(226,743)	(96,201)	167,695	(171,572)	(355,691)
Net income (loss)	(514,806)	(84,838)	(653,725)	(415,421)	(300,351)	4,433	(330,343)	(555,089)
Net earnings (loss) per share	(0.01)	(0.00)	(0.02)	(0.01)	(0.01)	0.00	(0.01)	(0.02)

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

At December 31, 2010, the Company had net working capital of $167,973. The Company has $993,430 cash and $100,000 of restricted cash securing $100,000 of bank indebtedness. Liabilities include $1,795,250 long-term debts, $521,857 convertible debentures and $69,640 capital lease obligations. The Company has declared $102,000 dividends to its subsidiary's exchangeable preferred shareholders. The Company has not paid any dividends to its common share holders.

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

Cash Flow

The Three Months Ended December 31, 2010 ("Q2 2011F")

Net cash provided in operating activities in Q2 2011F was $56,882 compared to $117,749 cash used in Q2 2010F, a decrease in use of $174,631 due to an increase of $290,210 in accounts payable, a decrease of $362,947 in inventory, a decrease of $162,207 in deferred costs which is offset by an increase of $59,378 in prepaid expenses and deposits, an increase of $382,392 in accounts receivable, and an increase of $198,963 in net loss after adjusting for items not affecting cash.

Cash used in Q2 2011F for purchasing property and equipment increased $13,228 compared to Q2 2010F. Capital assets for $29,705 were purchased under capital lease obligations in Q2 2011F, an increase of $29,705, compared to $nil used in Q2 2010F.

During Q2 2011F, the Company received $675,038 from issuance of common shares, $666,676 from issuance of convertible debentures and $100,000 from issuance of long-term debts compared to $nil received in Q2 2010F. The Company repaid $69,577 of bank indebtedness, $31,250 of long-term debts, $30,254 of capital lease obligations, and $375,000 of a demand loan during Q2 2011F compared to $61,439 of long-term debts and $35,375 of capital lease obligations repaid in Q2 2010F.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Cash Flow (continued)

The Six Months Ended December 31, 2010 ("2011F YTD")

Net cash used in operating activities in 2011F YTD was $94,183 compared to $299,563 cash used in 2010F YTD, a decrease in use of $205,380 due to an increase of $697,051 in accounts payable, a decrease of $413,600 in inventory, a decrease of $19,832 in deferred costs, and a decrease of $38,916 in due from related parties which is offset by an increase of $22,958 in prepaid expenses and deposits, an increase of $635,112 in accounts receivable, and an increase of $305,949 in net loss after adjusting for items not affecting cash.

Cash used in 2011F YTD for purchasing property and equipment increased $19,956 compared to 2010F YTD. Capital assets for $29,705 were purchased under capital lease obligations in 2011F YTD, an increase of $29,705, compared to $nil purchased in 2010F YTD. The Company redeemed $100,000 term deposit in connection with a buy out of a capital lease for $46,612. As at December 31, 2010, no term deposit has been pledged as security for capital leases.

During 2011F YTD, the Company received $675,038 from issuance of common shares, $666,676 from issuance of convertible debentures, $100,000 from issuance of long-term debts, $250,000 from a demand loan compared to $nil received in 2010F YTD. The Company repaid $136,534 of bank indebtedness, $87,500 of long-term debts, $99,302 of capital lease obligations, and $375,000 of a demand loan during 2011F YTD compared to $130,190 of long-term debts and $69,859 of capital lease obligations repaid in 2010F YTD.

Financing

On September 22, 2010, the Business Development Bank of Canada made an amendment to the existing term loan described in the December 31, 2010 financial statements note 10(a) in accordance with the request of the Company. Pursuant to the amendment, the remaining loan amount is to be repaid in 50 consecutive monthly installments of $9,750 each commencing October 15, 2010 and ending November 15, 2014.

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. 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.

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

During the period ended December 31, 2010, the Company completed, in three tranches, a private placement of units (the "Unit Offering") and a private placement of convertible debentures (the "Debenture Offering") announced previously on October 5, 2010 and October 25, 2010 (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 24, 2010.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Financing (continued)

Under the Unit Offering, the Company issued 12,730,000 units (the "Units"), at a purchase 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 and are redeemable by the Company upon maturity at a price of $0.15. The Convertible Debentures bear interest at 10% per annum, payable quarterly in arrears.

Canaccord Genuity Corp. ("Canaccord") acted as agent for the Offerings and as consideration for its services received a cash commission equal to 10% of the gross proceeds from the Offerings and 2,120,200 warrants (the "Agent's Warrants") equal to 12% of the number of Units and 12% of the number of common shares underlying the Convertible Debentures sold pursuant to the Offerings. Each Agent's Warrant entitles the holder, on exercise, to acquire one unit on the same terms as the Units for a price of $0.08 per unit for a period of 24 months from date of issue. The Company issued 625,000 common shares to the Agent as a corporate finance fee. Other share issue costs were $241,522.

The securities issued pursuant to the Offerings are subject to a hold period of four months and one day from the date of issue in compliance with securities laws and the policies of the TSX Venture Exchange, as applicable.

RELATED PARTIES

The Company's Board of Directors consists of Brian Harris, CEO, Andrew Harris, President and COO and Gary Liu, CFO, John Morgan, Chairman, Richard Shier and Paul Robertson.

During the period ended December 31, 2010, the Company incurred salaries and wages expense of $77,500 to relatives of directors of the Company (2009 – $74,000) and salaries of $24,000 to a director of the Company (2009 – $24,000 in consulting fees). 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.

As at December 31, 2010, the Company is owed $nil (June 30, 2010 – $45,392) from two officers and a director of the Company. The amounts were non-interest bearing, unsecured and due on demand.

On October 18, 2010, the Company granted 100,000 stock options to a director of the Company pursuant to its stock option plan, exercisable for up to five years at a price of $0.10 per share.

November 9, 2010, the Company appointed Gary Liu as Chief Financial Officer of the Company.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ materially from those estimates and assumptions. 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.

Returnable Containers

Returnable containers are recorded at cost and are amortized over their estimated useful lives. There is uncertainty in these estimates in that actual experience may vary from these estimates.

CRITICAL ACCOUNTING ESTIMATES (continued)

Capital Assets

Capital assets are originally recorded at cost. Property acquired under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of the fair value of the property or equipment and the present value of those lease payments. Depreciation is calculated on the straight line basis. There is uncertainty in these estimates in that actual experience may vary from these estimates.

Future Income Tax Asset

The Company has not recorded an income tax asset. The Company has determined it has not met the "more likely than not test "required by the CICA Handbook section 3465 "Income Taxes" for these assets to be recorded.

STOCK-BASED COMPENSATION PLANS

The Company recognizes compensation expense on options granted to employees, consultants and directors under its option plan. On October 18, 2010, the Company granted 100,000 stock options pursuant to its stock option plan, exercisable for up to five years at a price of $0.10 per share.

On November 18, 2010, the Company amended the exercise price of 1,872,500 options held by employees, directors and officers of the Company to a new price of $0.10. The re-pricing of options held by insiders of the Company is approved by shareholders of the Company, excluding votes cast by common shares beneficially owned by insiders of the Company and associates of such insiders, at the annual and special general meeting of the Company held on December 16, 2010.

OUTSTANDING SHARE DATA

The Authorized share capital consists of unlimited common shares without par value.

Outstanding Share Data	Number of Common Shares	Exercise Price per Common Share	Expiry Dates
Issued and outstanding as at September 30, 2010	46,680,437	N/A	N/A
Stock Options(1)	1,972,500	$0.10	April 13, 2011 – October 18, 2015
Conversion of preferred shares(2)	1,133,560	$0.60	March 31, 2013
Warrants(3)	6,665,087	$0.25	June 8, 2011
Conversion convertible debenture	4,938,333	$0.15	November 4 – December 23, 2012
Warrants	12,730,000	$0.15	November 4 – December 23, 2012
Agent warrants	2,120,200	$0.08	November 4 – December 23, 2012
Fully Diluted as at November 29, 2010	76,240,117	N/A	N/A

(1) The exercise price of 1,872,500 options held by employees, directors and officers of the Company were re-priced to $0.10 on November 18, 2010.

(2) After five years (the "Exchange Date") the 68,000 preferred shares will automatically be exchanged into 16.67 common shares of the Company or earlier if certain events occur, including a change in control of the Company or an insolvency event in RBC. At the Exchange Date, the exchange ratio will be increased for any penalty incurred or for any unpaid dividends.

(3) 6,665,087 warrants were fully vested on June 9, 2010.

RISKS AND UNCERTAINTIES

Credit risk

The Company grants credit to its customers in the normal course of business. However as the major portion of the accounts receivable is the British Columbia Liquor Distribution Branch and Manitoba Liquor Control Commission, management believes exposure to credit risk is limited.

Business Risk

There are certain inherent risks in the Company's operation that may impact financial results in the future. The most significant risks are as follows:

The Company operates in an environment that is highly competitive and government related. The effects of such competition and regulation may significantly impact financial results in the future.

The Company is reliant on receiving various permits, licenses and approvals from several government agencies to operate in its market areas. The company believes it is compliance with all permits, licenses and approvals.

Disclosure Controls and Procedures

Management has designed disclosure controls and procedures and internal controls and procedures over financial reporting appropriate for the nature and size of its operations to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company did not make any change in its internal control over financing reporting during the period ended December 31, 2010.

Management has identified certain weaknesses in internal controls over financial reporting as follows:

1) Due to a limited number of accounting and administrative staff, it is not feasible to achieve complete segregation of duties.

2) Due to a limited number of staff the Company does not have sufficient finance personnel with appropriate technical accounting knowledge to address all complex and non-routine transactions that may arise.

ADDITIONAL INFORMATION

For additional information relating to Russell Breweries Inc. please review SEDAR website at www.sedar.com and the Company's website at www.russellbeer.com or to contact Brian Harris, Russell Breweries Inc., 13018 80th Avenue, Surrey, BC V3W 3B2 ,Telephone: (604) 599-1190 Facsimile: (604) 599-1048.