RUSSELL BREWERIES INC.
Management Discussion and Analysis
For the nine months ended March 31, 2011

The following discussion and analysis prepared as of May 30, 2011 should be read in conjunction with the unaudited consolidated interim financial statements for the nine months ended March 31, 2011 and 2010, 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.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS (continued)

On March 23, 2011, the Company announced that its products would soon be available in the Spokane area in the USA by way of a distribution partnership with King Beverage Inc, one of the largest beer distributors in the Pacific North West.

SELECTED INFORMATION

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

Results for the quarterly period ended:	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010	Nine Months Ended March 31, 2009
	Unaudited	Unaudited and restated	Unaudited and restated
	$	$	$
Income Statement Data			
Gross Revenue	5,702,104	5,994,913	5,238,953
Net Sales (after excise tax and provincial mark-up)	4,497,653	4,605,552	4,111,285
Earnings (loss) before interest and other income, taxes, depreciation and amortization	(721,075)	(581,895)	(1,138,826)
Total income (loss) from continuing operations	(921,305)	(711,339)	(1,307,558)
Operating income (loss) per share	(0.02)	(0.02)	(0.05)
Net income (loss)	(921,305)	(711,339)	(1,307,558)
Basic and diluted earnings (loss) per share	(0.02)	(0.02)	(0.05)
Balance Sheet Data			
Total assets	7,322,978	7,730,653	7,952,001
Total long term financial liabilities	1,539,605	1,589,605	1,791,473
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 March 31, 2010 have been restated as follows:

For the nine months ended March 31, 2010	As Previously Reported	Change	As Restated
Statement of Operations:			
Amortization	$ 757,604	$ (330,958)	$ 426,646
Net income (loss)	(1,042,297)	330,958	(711,339)
Earnings (loss) per share – basic and diluted	(0.03)	0.01	(0.02)
Deficit, beginning of period	8,039,463	(1,477,221)	6,562,242
Deficit, end of period	9,112,360	(1,808,179)	7,304,181
Balance Sheet:			
Property and equipment	1,878,029	1,808,179	3,686,208
Deficit	$ 9,112,360	$(1,808,179)	$ 7,304,181

RECLASSIFICATIONS

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

PERFORMANCE AND RESULTS OF OPERATIONS

The Three Months Ended March 31, 2011 (“Q3 2011F”)

Net Sales for Q3 2011F were $1,490,373 up $105,134 or 7.59% compared to $1,385,239 for the three months ended March 31, 2010 (“Q3 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 Q3 2011F was up $1,386 or 0.22% to $618,532 compared to $617,146 for Q3 2010F. The gross margin percentage of Q3 2011F was down 3.05% to 41.50% compared to 44.55% for Q3 2010F. The decrease in gross margin is primarily a result of the product mix shipped with higher costs associated to packaging in Q3 2011F, which is not necessarily permanent.

Selling, general and administration expense for Q3 2011F were $777,785 down $66,104 or 7.83% compared to $843,889 for Q3 2010F. Most categories show a continued cost cut, a strong improvement in efficiency compared to Q3 2010F. The major cost reductions are advertising and promotion decrease of $73,800 to $153,901 from $227,701, freight and administrative labour decrease of $37,676 to $189,197 from $226,873, automotive decrease of $7,028 to $37,598 from $44,626, and repair and maintenance decrease of $7,303 to $16,009 from $23,312. 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 $321,661 for Q3 2011F compared to the net loss restated of $415,421 for Q3 2010F. The decrease in net loss is primarily a result of the implementation of an expense control system since Q1 2010F.

The Nine Months Ended March 31, 2011 (“2011F YTD”)

Net Sales for 2011F YTD were $4,497,653 down $107,899 or 2.34% compared to $4,605,552 for the nine months ended March 31, 2010 (“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 $342,593 or 14.07% to $2,092,515 compared to $2,435,108 for 2010F YTD. The gross margin percentage of 2011F YTD was down 6.35% to 46.52% compared to 52.87% 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 and Q3 2011F, which is not necessarily permanent.

Selling, general and administration expense for 2011F YTD decreased $125,788 or 4.86% to $2,464,569 compared to $2,590,357 for 2010F YTD. The decrease was primarily a result of advertising and promotion decrease of $145,637 to $561,090 from $706,727, freight and administrative labour decrease of $85,883 to $599,198 from $685,081, travel decrease of $20,364 to $28,545 from $48,909, and professional fees decrease of $25,281 to $178,209 from $203,490, which was offset by rent and utilities increase of $55,658 to $415,473 from $359,815, stock based compensation increase of $40,000 to $40,000 from $nil, consulting fees increase of $14,089 to $15,636 from $1,547 recovery, and office expense increase of $30,982 to $115,072 from $84,090. 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 $921,305 for 2011F YTD compared to the net loss restated of $711,339 for 2010F YTD. The increase in net loss is primarily a result of the increase in packaging cost in Q2 and Q3 2011F.

RUSSELL BREWERIES INC.
Management Discussion and Analysis
For the nine months ended March 31, 2011

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 Q3	2011F Q2	2011F Q1	2010F Q4	2010F Q3	2010F Q2	2010F Q1	2009F Q4
					Restated	Restated	Restated	Restated
	$	$	$	$	$	$	$	$
Gross revenues								
Net revenues	1,490,373	1,419,581	1,587,699	1,600,802	1,385,239	1,386,353	1,833,960	1,462,736
EBITDA(1)	(159,253)	(318,669)	105,868	(590,907)	(226,743)	(96,201)	167,695	(171,572)
Net income (loss)	(321,661)	(514,806)	(84,838)	(653,725)	(415,421)	(300,351)	4,433	(330,343)
Net earnings (loss) per share	(0.01)	(0.01)	(0.00)	(0.02)	(0.01)	(0.01)	0.00	(0.01)

Q3 2011F net sales were $1,490,373 up $70,792 or 5% increase compared to the net sales of $1,419,581 for Q2 2011F under the condition of no BC Place business. This is helped by seasonality, diversified distribution of Cactus Lime Lager in Alberta and continued improvements in retail distribution of Russell core brands in British Columbia. Q3 2011F to Q2 2010F net loss were down $193,145 or 37.5%. The continued decrease in net loss is a result of implementation of an expense control system since Q1 2010F.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

At March 31, 2011, the Company had net working capital deficit of $124,372. The Company has $56,599 cash and $100,000 of restricted cash securing $100,000 of bank indebtedness. Liabilities include $1,147,473 long-term debts, $521,857 convertible debentures and $51,490 capital lease obligations. The Company has declared $112,200 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 March 31, 2011 ("Q3 2011F")

Net cash used in operating activities in Q3 2011F was $219,378 compared to $92,041 cash provided in Q3 2010F, an increase in use of $311,418 due to an increase of $487,831 in accounts payable, a decrease of $47,410 in prepaid expenses and deposits which is offset by a decrease of $56,130 in accounts receivable, and a decrease of $99,842 in inventories, and a decrease of $52,543 in net loss after adjusting for items not affecting cash.

Cash used in Q3 2011F for purchasing property and equipment decreased $10,184 to $13,180 compared to $23,364 for Q3 2010F.

During Q3 2011F, the Company repaid $675,545 of long-term debts, $18,150 of capital lease obligations, and paid $10,579 for share issue cost compared to $56,250 of long-term debts and $33,269 of capital lease obligations repaid in Q3 2010F.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Cash Flow (continued)

The Nine Months Ended March 31, 2011 ("2011F YTD")

Net cash used in operating activities in 2011F YTD was $323,176 compared to $207,522 cash used in 2010F YTD, an increase in use of $115,654 due to an increase of $263,023 in net loss after adjusting for items not affecting cash, an increase of $578,982 in accounts receivable, an increase of $70,368 in prepaid expenses and deposits, which is offset by a decrease of $513,442 in inventory, a decrease of $19,832 in deferred costs, and a decrease of $35,958 in due from related parties, and an increase of $199,604 in accounts payable and accrued liabilities.

Cash used in 2011F YTD for purchasing property and equipment increased $33,136 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 March 31, 2011, no term deposit has been pledged as security for capital leases.

During 2011F YTD, the Company received $664,459 from issuance of common shares, $666,675 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, $753,428 of long-term debts, $17,452 of capital lease obligations, and $375,000 of a demand loan during 2011F YTD compared to $186,440 of long-term debts and $103,128 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 (paid) 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 March 31, 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") 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. The conversion rights were assigned a fair value of $183,550 which was determined using the Black-Scholes option-pricing model.

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 $252,101. These agent warrants were assigned a fair value of $73,587 for the Units and $27,952 for the Convertible Debentures which was determined using the Black-Scholes option-pricing model.

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 March 31, 2011, the Company incurred salaries and wages expense of $116,250 to relatives of directors of the Company (2010 – $111,000) and salaries of $28,000 to a director of the Company (2010 – $36,000 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 March 31, 2011, 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.

CHANGES IN ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption may be permitted, however it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three-month period September 30, 2011, which includes presentation of its comparative results for fiscal 2011 under IFRS. In order to prepare for the changeover to IFRS, the Company developed an IFRS conversion plan comprised of three phases:

Phase	Description and Status
PRELIMINARY PLANNING AND SCOPING	The IFRS conversion plan includes consideration of the impacts of IFRS on the Company’s financial statements, internal control over financial reporting, information systems and business activities such as foreign operations, if any, compensation metrics, and personnel and training requirements. Based on Management’s preliminary review of IFRS and current Company processes, minimal impact is expected on information systems and compensation metrics.
DETAILED IMPACT ASSESSMENT	This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company’s financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company’s conversion to IFRS and evaluation of the impact on outstanding operational elements such as debt covenants and budgeting. The Company expects to complete this phase by September 30, 2011.
IMPLEMENTATION	This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company’s quarterly and annual consolidated financial statements and related notes effective September 30, 2011, however continued progress on the IFRS conversion plan is necessary before the Company is able to describe or quantify those effects.

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 May 25, 2011	46,680,437	N/A	N/A
Stock Options(1)	1,627,500	$0.10	October 20, 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 May 25, 2011	75,895,117	N/A	N/A

(1) The exercise price of 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 are held by the BCLDB, the MLCC, and AGLC, management believes exposure to credit risk is limited.

Competition

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

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

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

Government Regulation

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

Trends in Consumer Preferences and Attitudes

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

RISKS AND UNCERTAINTIES (continued)

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

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

Dependence on Key Personnel

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

Operating Hazards

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

Trade Regulations

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

Proprietary Rights

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

Seasonal Nature of Business
The Company's business is seasonal to a certain extent. The second and third financial quarters are generally stronger than the first and fourth quarters.

RISKS AND UNCERTAINTIES (continued)

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 March 31, 2011.

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.