RUSSELL BREWERIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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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, 2015 and 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, 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 based on 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, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
October 27, 2015

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT JUNE 30, 2015 AND 2014

(Expressed in Canadian Dollars)

		2015		2014
ASSETS				
Current				
Cash and cash equivalents	$	428,312	$	662,056
Accounts receivable (Note 19(c)(i))		858,708		833,078
Inventories (Note 5)		1,017,236		867,530
Prepaid expenses and deposits		46,849		200,710
		2,351,105		2,563,374
PROPERTY AND EQUIPMENT (Note 6)		2,438,837		2,573,345
INTANGIBLE ASSETS (Note 7)		1,941,229		1,935,268
RESTRICTED TERM DEPOSIT (Note 8)		106,341		100,000
LONG-TERM INVESTMENT (Note 10)		–		100,000
DEPOSITS		11,439		–
DEFERRED TAX ASSETS (Note 15(a))		1,265,000		–
	$	8,113,951	$	7,271,987
LIABILITIES				
Current				
Bank indebtedness	$	–	$	36,966
Accounts payable and accrued liabilities (Note 24)		1,157,559		810,713
Income taxes payable		–		171,000
Due to related parties (Notes 9 and 18(a))		10,561		215,100
Current portion of long-term debt (Note 11)		674,029		286,417
Current portion of finance lease obligations (Note 12)		14,329		27,052
		1,856,478		1,547,248
LONG-TERM DEBT (Note 11)		18,310		565,653
FINANCE LEASE OBLIGATIONS (Note 12)		–		26,651
UNEARNED LICENSE FEES (Note 13)		31,250		56,250
DEFERRED TAX LIABILITIES (Note 15(a))		–		698,000
		1,906,038		2,893,802
EQUITY				
SHARE CAPITAL (Note 14)		12,283,087		12,283,087
SHARE-BASED PAYMENTS RESERVES		3,798,198		3,570,648
DEFICIT		(9,873,372)		(11,475,550)
		6,207,913		4,378,185
	$	8,113,951	$	7,271,987

COMMITMENTS AND CONTINGENCIES (Note 20)
SUBSEQUENT EVENT (Note 25)

Approved and authorized for issuance on behalf of the Board of Directors on October 27, 2015:

/s/ Alnesh Mohan — Alnesh Mohan, Director

/s/ Peter H. Stafford — Peter H. Stafford, Director

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

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

(Expressed in Canadian Dollars)

		2015		2014
REVENUES (Note 22)	**$**	**7,937,861**	**$**	7,545,459
COST OF SALES (Notes 5 and 23)		**3,600,812**		3,302,614
GROSS MARGIN		**4,337,049**		4,242,845
EXPENSES				
Depreciation (Note 6)		**72,470**		79,506
Selling, general and administrative (Notes 14(c), 18 and 23)		**4,246,150**		3,797,159
		4,318,620		3,876,665
EARNINGS BEFORE OTHER INCOME (EXPENSE)		**18,429**		366,180
OTHER INCOME (EXPENSE)				
Other income (Note 13)		**26,575**		25,000
Interest income (Note 8)		**7,682**		2,704
Interest on finance lease obligations (Note 12)		**(13,236)**		(18,355)
Other expenses		**(87,428)**		(15,850)
Write-off of long-term investment (Note 10)		**(100,000)**		–
Interest on long-term debt (Note 11)		**(212,844)**		(157,959)
		(379,251)		(164,460)
INCOME (LOSS) BEFORE INCOME TAXES		**(360,822)**		201,720
INCOME TAXES (Note 15(c))				
Current tax expense		**–**		(171,000)
Deferred tax recovery		**1,963,000**		31,000
		1,963,000		(140,000)
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR		**1,602,178**		61,720
EARNINGS PER SHARE (Note 16)				
Basic and diluted	**$**	**0.02**	**$**	0.00

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

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

(Expressed in Canadian Dollars)

	Share Capital		Share-based		
	Number of Shares	Value $	Payments Reserves $	Deficit $	Total Equity $
Balance, June 30, 2014	87,083,788	12,283,087	3,570,648	(11,475,550)	4,378,185
Comprehensive income	–	–	–	1,602,178	1,602,178
Share-based compensation (Note 14(c))	–	–	227,550	–	227,550
Balance, June 30, 2015	87,083,788	12,283,087	3,798,198	(9,873,372)	6,207,913
Balance, June 30, 2013	78,350,455	11,783,304	3,398,726	(11,537,270)	3,644,760
Comprehensive income	–	–	–	61,720	61,720
Shares issued, net of share issue costs	8,733,333	499,783	–	–	499,783
Share-based compensation	–	–	(1,193)	–	(1,193)
Fair value of warrants issued	–	–	173,115	–	173,115
Balance, June 30, 2014	87,083,788	12,283,087	3,570,648	(11,475,550)	4,378,185

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

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

(Expressed in Canadian Dollars)

	2015	2014
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	**$ 1,602,178**	$ 61,720
Adjusted for non-cash items:		
Deferred income tax recovery (Note 15(c))	**(1,963,000)**	(31,000)
Depreciation	**388,281**	392,667
Accretion of long-term debt	**120,079**	49,123
Accrued interest on long-term debt	**85,163**	26,477
Recognition of unearned license fees (Note 13)	**(25,000)**	(25,000)
Other expenses	**87,428**	15,850
Bad debt expense	**–**	45,123
Share-based compensation (Note 14(c))	**227,550**	(1,193)
Write-off of long-term investment (Note 10)	**100,000**	–
	622,679	533,767
Net changes in non-cash working capital items:		
Accounts receivable	**(25,630)**	246,466
Short-term investments	**(6,341)**	–
Prepaid expenses and deposits	**142,423**	(54,841)
Inventories	**(149,706)**	(203,484)
Due to and from related parties	**(104,539)**	1,711
Income taxes payable	**(171,000)**	171,000
Accounts payable and accrued liabilities	**259,420**	(605,650)
	567,306	88,969
INVESTING ACTIVITIES		
Purchase of property and equipment	**(257,973)**	(116,162)
Proceeds on disposal of equipment	**4,200**	–
Acquisition of intangible assets	**(5,964)**	–
	(259,737)	(116,162)
FINANCING ACTIVITIES		
Shares issued, net of share issuance costs	**–**	499,783
Proceeds from long-term debt	**–**	500,000
Repayment of demand loan	**(100,000)**	–
Proceeds from demand loan	**–**	100,000
Proceeds from bank indebtedness	**–**	295
Repayment of bank indebtedness	**(36,966)**	–
Repayment of long-term debt	**(364,973)**	(543,446)
Repayment of finance lease obligations	**(39,374)**	(46,757)
Payment of financing costs on long-term debt	**–**	(34,078)
	(541,313)	475,797
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(233,744)**	448,604
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**662,056**	213,452
CASH AND CASH EQUIVALENTS, ENDING OF YEAR	**$ 428,312**	$ 662,056

SUPPLEMENTAL CASH FLOW INFORMATION (Note 17)

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

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

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 ("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.

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 ("IASB").

(b) Basis of Presentation, Functional Currency and Basis of Consolidation

The following companies had been consolidated with Russell Breweries Inc. as at June 30, 2014:

Company Name	Registered	Holding	Functional Currency
Russell Breweries Inc.	British Columbia	Parent Company	Canadian Dollar
Russell Brewing Company Ltd.	British Columbia	100%	Canadian Dollar
Fort Garry Brewing Company Ltd.	Manitoba	100%	Canadian Dollar
Russell USA LLC (Note 2(b)(i))	United States	0%	United States Dollar

(i) As at June 30, 2014 the Company owned a 0% interest in Russell USA LLC, however was able to exercise control of the entity, therefore it had been consolidated.

(ii) Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions, were eliminated in preparing the consolidated financial statements.

On July 1, 2014, Russell Brewing Company Ltd. ("Russell") amalgamated with Fort Garry Brewing Company Ltd. The continuing amalgamated entity is Fort Garry Brewing Company Ltd. The following companies have been consolidated with Russell Breweries Inc. as at June 30, 2015:

Company Name	Registered	Holding	Functional Currency
Russell Breweries Inc.	British Columbia	Parent Company	Canadian Dollar
Fort Garry Brewing Company Ltd.	Manitoba	100%	Canadian Dollar
Russell USA LLC (Note 2(b)(iii)	United States	0%	United States Dollar

(iii) As at June 30, 2015 the Company owned 0% interest in Russell USA LLC, however, was able to exercise control of the entity, therefore it has been consolidated.

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

(b) Basis of Presentation, Functional Currency and Basis of Consolidation (continued)

(iv) Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

(c) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis, presented in Canadian dollars, except where otherwise indicated.

(d) Significant Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make judgments in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated 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 consolidated 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 consolidated financial statements.

(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 outcomes of which are uncertain.

Deferred Income Taxes

Deferred tax assets 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 Assessments of Long-Lived Assets

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. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

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

(d) Significant Accounting Estimates and Judgments (continued)

(i) Significant Judgments (continued)

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 10), results in significant influence over the other company such that the Company would be required to account for its long-term investment using the equity method of accounting or the cost method of accounting.

Control over Russell USA LLC

The Company does not hold any equity interest in Russell USA LLC. At June 30, 2015 and 2014, it was determined that the Company exhibited control over the entity. The Company must use judgement to determine if control exists and whether Russell USA LLC should be included in the consolidated financial statements.

(ii) Significant Estimates

Significant areas requiring the use of management estimates include accounts receivable, inventory valuation, the estimated useful lives of long-lived assets, the recoverability of amounts recorded for long-lived assets, estimates used in impairment analysis of intangible assets, valuation of warrants and other share-based payments, valuation of deferred income tax assets and liabilities, deferred income tax rates and estimates of contingent liabilities. Actual results could differ from the estimates made.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial Instruments

(i) Cash and Cash Equivalents

Cash and cash equivalents, when applicable, are designated as fair value through profit or loss ("FVTPL") and 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) Long-term Investment

The long-term investment in Russell Breweries (China) Inc. is designated as available-for-sale and is measured at cost as it does not have a quoted market price in an active market and whose fair value cannot be reliably measured on an ongoing basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial Instruments (continued)

(iv) 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 consolidated statement of comprehensive income.

(v) Long-Term Debt and Due to Related Parties

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

(vi) Derivative Instruments

Derivative instruments, including embedded derivatives, are recorded on the consolidated statement of financial position 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 consolidated statement of financial position date. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

(b) 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.

(c) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property and Equipment (continued)

(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.

(d) Intangible Assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets are comprised of brands and trademarks. Brands and trademarks held by the Company have an indefinite life and, therefore, are not amortized (see Note 3(e)). Brands and trademarks are measured at cost less any impairment in value.

(e) Impairment of Financial and Non-financial Assets

Assets that have an indefinite useful life, such as brands and trademarks, are not subject to amortization and are tested for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to depreciation and amortization, such as property and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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.

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 consolidated statement of comprehensive income to reflect the asset at the recoverable 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 price that would be received to sell the asset or group of assets in an orderly transaction between market participants at the measurement date less incremental costs directly attributed to the disposal of the asset or group of assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of Financial and Non-financial Assets (continued)

A reversal of a previously recognized impairment loss is recorded in the consolidated statement of comprehensive income 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

The Company recognizes revenues on product sales at the time the product is shipped. At the time of shipment the following criteria for revenue recognition exist: title has transferred to the provincial liquor boards or retail customers according to the shipping terms, the Company no longer retains managerial involvement with the product associated with ownership, the amount of revenue and costs incurred with respect to the underlying transaction are measured reliably, and collection of the related receivable is probable. Anticipated product returns are provided for at the time of sale. Revenues represent 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 it is probable that the economic benefits associated with the transaction will flow to the Company. 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 it is probable that the economic benefits associated with the transaction will flow to the Company.

(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(c).

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 using 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Deferred 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 tax assets are recognized for all deductible temporary differences, tax loss carryforwards and tax credit carryforwards to the extent that it is probable that taxable profit will be available against which they can be utilized.

Deferred 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 consolidated statement of financial position.

Deferred tax assets and deferred 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 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 accretion expense.

(m) Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer who is considered to be the Company's 'chief-operating decision maker'. The Chief Executive Officer has determined that the Company operates in a single industry and operating segment which involves the production, distribution and sale of beer in Canada. All property and equipment are situated in Canada.

4. ADOPTION OF NEW ACCOUNTING STANDARDS

(a) Newly Adopted Accounting Standards

The mandatory adoption of the following new and revised accounting standards and interpretations on July 1, 2014 had no significant impact on the Company's consolidated financial statements for the current year or prior year presented. The following standards were adopted for the year ended June 30, 2015:

- Amendments to IAS 16 – Property, Plant and Equipment
- Amendments to IAS 32 – Financial Instruments: Presentation
- Amendments to IAS 36 – Impairment of Assets
- Amendments to IAS 38 – Intangible Assets
- Amendments to IAS 39 – Financial Instruments: Recognition and Measurement

(b) Future Changes in Accounting Standards

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 future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

<u>New accounting standards effective January 1, 2015</u>

- IAS 1 – Presentation of Financial Statements - In December 2014, the IASB issued an amendment to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The changes clarify that materiality considerations apply to all parts of the financial statements and the aggregation and disaggregation of line items within the financial statements.

4. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(b) Future Changes in Accounting Standards (continued)

New accounting standards effective January 1, 2015 (continued)

- IAS 16 – *Property, Plant and Equipment* and IAS 36 – *Intangible Assets* - In May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

New accounting standards effective January 1, 2017

- IFRS 15 – *Revenue from Contracts with Customers* - IFRS 15 was issued in May 2014 and specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

New accounting standards effective January 1, 2018

- IFRS 9 – *Financial Instruments* – In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013, new general hedge requirements were added to the standard. In July 2014, the final version of IFRS 9 was issued and adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics.

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Company has not yet been determined.

(Expressed in Canadian Dollars)

5. INVENTORIES AND COST OF SALES

	2015	2014
Finished goods	**$ 208,531**	$ 118,273
Work-in-progress	**317,066**	259,503
Raw materials	**491,639**	489,754
	$ 1,017,236	$ 867,530

During the year ended June 30, 2015, charges of $Nil (2014 – $Nil) 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, 2015 and June 30, 2014.

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

	2015	2014
Cash component:		
Inventories	**$ 3,285,001**	$ 2,987,320
Non-cash component:		
Depreciation	**315,811**	315,294
Cost of sales	**$ 3,600,812**	$ 3,302,614

(Expressed in Canadian Dollars)

6. PROPERTY AND EQUIPMENT

	Computer $	Equipment $	Leasehold improvements $	Office furniture and fixtures $	Vehicles $	Refundable containers $	Total $
Cost							
Balance as at June 30, 2013	69,285	5,961,703	1,309,557	63,844	562,414	895,639	8,862,442
Additions/(Disposals)	8,116	72,189	33,419	–	(9,685)	12,123	116,162
Balance as at June 30, 2014	**77,401**	**6,033,892**	**1,342,976**	**63,844**	**552,729**	**907,762**	**8,978,604**
Additions/(Disposals)	**530**	**36,347**	**165,318**	**–**	**(65,757)**	**54,592**	**191,030**
Balance as at June 30, 2015	**77,931**	**6,070,239**	**1,508,294**	**63,844**	**486,972**	**962,354**	**9,169,634**
Accumulated Depreciation							
Balance as at June 30, 2013	69,285	3,380,730	1,307,871	63,844	402,325	788,537	6,012,592
Depreciation	419	260,640	1,965	–	56,660	72,983	392,667
Balance as at June 30, 2014	**69,704**	**3,641,370**	**1,309,836**	**63,844**	**458,985**	**861,520**	**6,405,259**
Disposals	**–**	**–**	**–**	**–**	**(62,743)**	**–**	**(62,743)**
Depreciation	**2,096**	**263,869**	**15,646**	**–**	**50,826**	**55,844**	**388,281**
Balance as at June 30, 2015	**71,800**	**3,905,239**	**1,325,482**	**63,844**	**447,068**	**917,364**	**6,730,797**
Carrying amounts							
June 30, 2013	–	2,580,973	1,686	–	160,089	107,102	2,849,850
June 30, 2014	7,697	2,392,522	33,140	–	93,744	46,242	2,573,345
June 30, 2015	**6,131**	**2,165,000**	**182,812**	**–**	**39,904**	**44,990**	**2,438,837**

Equipment includes assets under finance leases with a cost of $439,719 (June 30, 2014 – $439,719) and accumulated depreciation of $118,517 (June 30, 2014 – $99,159). Vehicles includes assets under finance leases with a cost of $473,775 (June 30, 2014 – $537,509) and accumulated depreciation of $433,709 (June 30, 2014 – $445,788). The Company has recognized depreciation of $52,655 in inventory (June 30, 2014 - $53,712), $72,470 in expenses (2014 - $79,506) and $263,156 in cost of sales (2014 - $259,449).

(Expressed in Canadian Dollars)

7. INTANGIBLE ASSETS

	Brands and Trademarks	Website	Total
Cost			
Balance as at June 30, 2013	$ 1,935,268	$ 5,975	$ 1,941,243
Balance as at June 30, 2014	**$ 1,935,268**	**$ 5,975**	**$ 1,941,243**
Additions	$ 5,961	$ –	$ 5,961
Balance as at June 30, 2015	**$ 1,941,229**	**$ 5,975**	**$ 1,947,204**
Accumulated Depreciation			
Balance as at June 30, 2013	$ –	$ 5,975	$ 5,975
Balance as at June 30, 2014	**$ –**	**$ 5,975**	**$ 5,975**
Balance as at June 30, 2015	**$ –**	**$ 5,975**	**$ 5,975**
Carrying amounts			
June 30, 2013	$ 1,935,268	$ –	$ 1,935,268
June 30, 2014	$ 1,935,268	$ –	$ 1,935,268
June 30, 2015	**$ 1,941,229**	**$ –**	**$ 1,941,229**

8. RESTRICTED TERM DEPOSIT

A term deposit of $100,000 has been pledged as security for a $100,000 bank line of credit (June 30, 2014 – $100,000). As at June 30, 2015, accrued interest has been earned on the term deposit in the amount of $6,341 (2014 - $Nil).

9. BRIDGE LOAN DUE TO RELATED PARTIES

On September 3, 2013, the Company entered into a bridge loan agreement with the spouses of certain directors of the Company whereby the lenders would provide the Company with a loan facility in the aggregate amount of CDN$100,000 (the "Bridge Loan"). The Bridge Loan bore interest at a rate of 9.0% per annum calculated and compounded semi-annually. The term of the Bridge Loan was one year from the date of the Bridge Loan Agreement and the principal and accrued interest were 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. As part of the Bridge Loan Agreement, 400,000 common shares of the Company were issued to the lenders as consideration for agreeing to advance the loans to the Company. The shares issued had an estimated fair value of $0.05 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, 2015, the Company recorded interest expense of $2,873 (2014 -$25,678), of which $2,049 (2014 - $17,951) related to the accretion of the discounted value of the loan, which has been recorded as interest on long-term debt. The Company repaid the loan and interest in full in September 2014.

(Expressed in Canadian Dollars)

10. 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 received 20% of the common shares of the Licensee ("Licensee Common Shares") with an estimated fair value of $100,000. During the year ended June 30, 2014, the Company's interest in the Licensee decreased to 7.69% and remained the same as at June 30, 2015. As a result, the Company has used the cost method to account for its investment due to the fact that the Company has no significant influence over the Licensee's management of operations (see Note 13). During the year ended June 30, 2015, the Company determined that the long-term investment was not recoverable. A loss in the amount of $100,000 was recorded as a write-off of long-term investment in the consolidated statement of comprehensive income.

11. LONG-TERM DEBT

	June 30, 2015	June 30, 2014
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 $9,750 plus interest due November 15, 2014, secured by the assets of Fort Garry	**$ –**	$ 48,750
Term bank loan, bearing interest at floating base rate plus a variance of 1%, repayable in monthly installments of $1,750 plus interest maturing on August 15, 2015, secured by the assets of Fort Garry (a)	**3,210**	22,896
Term loan, bearing interest at 10% per annum calculated semi-annually, repayable in monthly installments of $17,500 plus bonus and interest maturing on July 31, 2016, secured by the assets of Russell and Fort Garry (b)	**234,976**	444,121
Term loan, bearing interest at 9% per annum calculated semi-annually, secured by a guarantee by a director of the Company, due December 31, 2015 (c)	**454,153**	336,303
	692,339	852,070
Less: current portion of long-term debt	**(674,029)**	(286,417)
Long-term portion of long-term debt	**$ 18,310**	$ 565,653

(a) 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, 2015, the Company recorded interest expense of $3,737 (2014 - $12,374), of which $1,314 (2014 - $3,037) related to the accretion of the discounted value of the loan, which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income.

11. LONG-TERM DEBT (continued)

(b) 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.

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 provided to the Company a new loan valued at maturity in the amount of $738,600. The discounted value or loan advance amount of $620,000 was 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 also earned a bonus of $22,500, which was included in the loan amount. The term of the loan was 19 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 and amendment to 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 of $24,374. The Company may repay the loan at any time without penalty by paying the outstanding loan amount together with accumulated interest and prorated bonus. The extension is guaranteed by Fort Garry Brewing Company Ltd. 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. On July 31, 2013, the Company repaid $206,834 of the loan.

(Expressed in Canadian Dollars)

11. LONG-TERM DEBT (continued)

(b) On July 26, 2013, the Company negotiated to further amend and extend repayment of the balance of $630,000 of the loan in Note 11(b). 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 amount of $650,000 was amended and extended as follows: a 10% per annum interest rate, calculated semi-annually, repayable in monthly installments of $17,500 plus bonus and interest, subject to a penalty of $17,500 for each missed monthly installment payment, and maturing July 31, 2016. The loan is guaranteed by Fort Garry Brewing Company Ltd. 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.

During the year ended June 30, 2015, the Company recorded interest expense of $47,244 (2014 - $67,801), of which $7,522 (2014 - $12,732) related to the accretion of the discounted value of the loan. The interest expense has been recorded as interest on long-term debt in the consolidated statement of comprehensive income. The face value of the loan as at June 30, 2015 was $234,976 (June 30, 2014 - $444,121).

(c) On January 20, 2014, the Company entered into a loan agreement with Weichun Ye, Yan Zeng and Dongbing (Derrick) Ma, (the “Guarantor”) for an aggregate principal amount of $500,000 bearing interest at a rate of 9% per annum calculated and compounded semi-annually. Interest incurred on the loan during the year ended June 30, 2015 was $47,737 (2014 - $18,750) and $27,654 is owing for interest at June 30, 2015 (2014- $66,488). The Company also recorded interest expense of $109,205 (2014 - $24,747) related to the amortization of finance fees of this loan. The principal amount of the loan is due and payable on the earlier of December 31, 2015 and the occurrence of an event of default as defined in the loan agreement. The Company’s obligations under the loan agreement are guaranteed by the Guarantor and, in consideration for acting as guarantor, the Company has granted to the Guarantor 4,000,000 non-transferable warrants, each warrant entitling the Guarantor to purchase one common share of the Company at an exercise price of $0.05 per share until December 31, 2015 (Note 14(c)). The Company has granted to the lenders of this loan security interest in all present and future undertakings and property of the Company as described in the security agreement.

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

Fiscal Year		**Amount**
2016	**$**	**713,500**
2017		**17,500**
	$	**731,000**

12. 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:

(Expressed in Canadian Dollars)

12. FINANCE LEASE OBLIGATIONS (continued)

	2015
Total minimum lease payments	**$ 16,499**
Less: amount representing interest	**(2,170)**
Current finance lease obligations (net)	**$ 14,329**

Interest expense incurred on finance lease obligation for the year ended June 30, 2015 is $13,236 (2014 - $18,355).

13. UNEARNED LICENSE FEES

On October 2, 2012, the Company completed a non-exclusive technology and trademark 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 (See Note 10). 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 period ended June 30, 2015, the Company has recognized $1,050 (2014 - $nil) in royalties and $25,000 (2014 - $25,000) in license fees earned under the agreement, which has been included in other income in the consolidated statement of comprehensive income. As at June 30, 2015, the unearned license fee is $31,250 (2014 - $56,250).

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

There was no change in issued share capital for the year ended June 30, 2015.

During the year ended June 30, 2014, the Company completed in two tranches, a non-brokered private placement of common shares. The first tranche closed on May 7, 2014 and the final tranche closed on June 17, 2014. Under the private placement, the Company issued and sold 8,733,333 common shares at a purchase price of $0.06 for aggregate gross proceeds of $500,000.

(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-V. 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, 2014, 50,000 stock options previously granted to key employees and directors vested net of forfeited incentive stock options. The Company recorded a total amount of $1,193 compensation recovery included in selling, general and administrative expense relating to these options.

On July 9, 2014, the Company granted 4,550,000 incentive stock options to key employees and directors exercisable at $0.07 per share expiring five years from the grant date, pursuant to its stock option plan. The options vest with 1/24th of the granted options vesting each monthly anniversary of the date of grant for 24 months. The fair value of each option granted was $0.07 calculated using the Black-Scholes option pricing model at the date of grant using the following assumptions: expected option life for 5 years; forfeiture rate of 0%, risk-free interest rate of 1.46%; expected dividend yield of 0% and expected stock price volatility of 112%. During the year ended June 30, 2015, the Company recorded a total amount of $227,550 compensation cost included in selling, general and administrative expense relating to these options.

Stock option activity during the years ended June 30, 2015 and 2014 is presented below:

	2015		2014	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**50,000**	**$ 0.10**	1,300,000	$ 0.10
Granted	**4,550,000**	**0.07**	–	–
Forfeited	**–**	**–**	(1,250,000)	0.10
Outstanding, end of year	**4,600,000**	**$ 0.07**	50,000	$ 0.10

Certain directors and officers of the Company resigned resulting in forfeiture of 1,250,000 stock options during the year ended June 30, 2014.

At June 30, 2015, 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	**50,000**	**0.02**	**0.00**	**50,000**	**0.00**
0.07	**4,550,000**	**3.98**	**0.07**	**2,085,417**	**0.07**
	4,600,000	**3.98**	**0.07**	**2,135,417**	**0.07**

(Expressed in Canadian Dollars)

14. SHARE CAPITAL (continued)

(d) Warrants

Warrant activity during the years ended June 30, 2015 and 2014 is presented below:

	2015		2014	
	# of Shares	**Weighted Average Exercise Price $**	# of Shares	Weighted Average Exercise Price $
Outstanding and exercisable, beginning of year	**13,640,000**	**0.09**	9,640,000	0.10
Granted	**–**	**–**	4,000,000	0.05
Expired	**(9,640,000)**	**0.10**	–	–
Outstanding and exercisable, end of year	**4,000,000**	**0.05**	13,640,000	0.09

During the year ended June 30, 2014, the Company granted 4,000,000 non-transferable warrants to a director for guaranteeing the $500,000 loan with Weichun Ye, Yan Zeng and Dongbing (Derrick) Ma ("Guarantor") (see Note 11(c)). The warrants are exercisable at $0.05 per share and expire December 31, 2015. If the Company repays any of the $500,000 principal amount prior to January 20, 2015 the warrants, to the extent not already exercised, cancel on a pro rata basis based on the amount repaid relative to the principal amount. During the year ended June 30, 2014, the Company recognized $173,115 for the fair value of these warrants in share-based payment reserves with a corresponding amount recorded as a financing cost against long-term debt.

Warrant pricing requires the use of highly subjective estimates and assumptions including the expected stock price volatility. The expected volatility used in valuing these warrants is based on volatility observed in historical periods. Changes in the underlying assumptions can materially affect the fair value estimates. The fair value of the warrants granted to the director during the year ended June 30, 2014 as consideration for a loan guarantee as described above was calculated using the Black-Scholes option pricing model with the following weighted average assumptions and resulting grant date fair value:

	2014
Weighted average assumptions:	
Risk-free interest rate	0.94%
Expected dividend yield	0%
Forfeiture rate	0%
Expected option life (years)	2 years
Expected stock price volatility	211%
Weighted average fair value at grant date	$ 0.03

(Expressed in Canadian Dollars)

14. SHARE CAPITAL (continued)

(d) Warrants (continued)

At June 30, 2015, 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
4,000,000	**$ 0.05**	**December 31, 2015**

15. INCOME TAXES

(a) Deferred Tax Assets and Liabilities

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

	2015	2014
Deferred tax assets (liabilities):		
Non-capital losses carried forward	**$ 3,137,000**	$ 3,030,000
Tax value of property and equipment in excess of book value	**(58,000)**	228,000
Tax value of intangible assets in excess of book value	**(440,000)**	4,000
Tax value of long-term debt in excess of book value	**(19,000)**	(50,000)
Share and long-term debt issue costs available to be deducted for tax purposes	**20,000**	47,000
	2,640,000	3,259,000
Unrecognized deferred tax assets	**(1,375,000)**	(3,259,000)
Net deferred tax assets	**$ 1,265,000**	$ –
Deferred tax liabilities:		
Book value of property and equipment in excess of tax value	**-**	$ (251,000)
Book value of intangible assets in excess of tax value	**-**	(447,000)
Net deferred tax assets (liabilities)	**$ -**	**$** (698,000)

(Expressed in Canadian Dollars)

15. INCOME TAXES (continued)

(b) Non-Capital Losses Carried Forward and Expiration Dates

The Company has non-capital losses of approximately $11,947,000 (2014 - $11,654,000) 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**
2015	**164,000**
2026	**55,000**
2027	**486,000**
2028	**1,696,000**
2029	**2,213,000**
2030	**1,831,000**
2031	**1,937,000**
2032	**1,150,000**
2033	**722,000**
2034	**765,000**
2035	**1,278,000**
	$ 11,947,000

(c) Income tax Recovery (Expense)

Income tax recovery (expense) included in the consolidated statement of comprehensive income is as follows:

		2015		2014
Current income tax recovery (expense)	$	**-**	$	(171,000)
Deferred income tax recovery (expense)		**1,963,000**		31,000
Total income tax recovery (expense)	$	**1,963,000**	$	(140,000)

(d) Reconciliation of Tax Rates

The Company is subject to Canadian federal and provincial taxes at an approximate rate of 26% for the year ended June 30, 2015 (2014 – 26%). The reconciliation of the provision for income taxes at the statutory rate compared to the Company's income tax recovery (expense) as reported is as follows:

		2015		2014
Loss (income) before income taxes	**$**	**360,822**	$	(201,720)
Statutory tax rate		**26%**		26%
Expected income tax recovery (expense) at statutory rates		**94,000**		(53,000)
Permanent differences		**(64,000)**		(41,000)
Changes in estimates and other		**64,000**		2,000
Expiry of loss		**(13,000)**		–
Change in unrecognized deferred tax assets		**1,882,000**		(48,000)
Income tax recovery (expense)	**$**	**1,963,000**	$	(140,000)

(Expressed in Canadian Dollars)

16. EARNINGS PER SHARE

The computation of net earnings per share attributable to common shareholders is as follows:

Basic		**2015**	**2014**
Net income	$	**1,602,178**	**61,720**
Common shares outstanding, beginning of year		**87,083,788**	**78,350,455**
Weighted average number of common shares issued during the year		**–**	**1,288,630**
Basic number of common shares outstanding during the year		**87,083,788**	**79,639,085**
Basic earnings per share	$	**0.02**	**0.00**

Diluted		**2015**	**2014**
Net income	$	**1,602,178**	**61,720**
Basic number of common shares outstanding during the year		**87,083,788**	**79,639,085**
Weighted average number of common shares issuable on dilutive options and warrants, during the year		**682,089**	**245,325**
Diluted number of common shares outstanding during the year		**87,765,877**	**79,884,410**
Diluted earnings per share	$	**0.02**	**0.00**

17. SUPPLEMENTAL CASH FLOW INFORMATION

		2015		2014
Cash paid for:				
Interest	**$**	**9,948**	$	82,763
Income taxes		**171,000**		–
Non-cash investing and financing activities:				
Bonus shares issued on loan extension agreement (Note 11(b))		**–**		20,000
Non-transferable warrants issued (Note 14(d))		**–**		173,115

18. 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 as follows:

(Expressed in Canadian Dollars)

18. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	2015	2014
Short-term benefits:		
Salaries, management and consulting fees [Notes 18(a), (b), (c) & (k)]	**$ 317,348**	$ 209,491
Directors fees [Note 18(d)]	**36,000**	35,484
Legal fees [Note 18(e)]	**12,745**	13,375
Accounting fees [Notes 18(f) & (g)]	**-**	42,293
Share-based payments [Notes 14(c) and 18(h)]	**227,550**	(1,193)
Total short-term benefits	**$ 593,643**	$ 299,450
Termination benefits [Note 18(b)]	**-**	160,400
	$ 593,643	$ 459,850

(a) During the year ended June 30, 2015, the Company incurred management fees to a company controlled by the CEO in the amount of $182,654 (2014 - $95,330) and salaries to the CFO in the amount of $134,694 (2014 – $83,387). As at June 30, 2015, the Company owed $10,561 to the CEO and a company controlled by the CEO (2014 – $23,167), which is non-interest bearing, unsecured and due on demand.

(b) During the year ended June 30, 2015, the Company incurred management and consulting fees of $Nil (2014 - $24,000) and termination benefits of $Nil (2014 - $160,400) to a company controlled by the former CEO. As at June 30, 2015, the Company owed $Nil to the former CEO through a company controlled by the former CEO (2014 - $24,000), which was non-interest bearing, unsecured and due on demand.

(c) During the year ended June 30, 2015, the Company incurred management fees of $Nil to a company controlled by the former COO (2014 - $6,774).

(d) During the year ended June 30, 2015, the Company incurred director fees of $36,000 (2014 - $35,484). As at June 30, 2015, the Company owed $Nil to the independent directors (2014 – $18,000), which were non-interest bearing, unsecured and due on demand.

(e) During the year ended June 30, 2015, the Company accrued legal fees of $12,745 (2014 - $13,375) to a company controlled by a former director of the Company. As at June 30, 2015, the Company had a balance of $57,000 owing to a company controlled by a former director of the Company (2014 - $44,255).

(f) During the year ended June 30, 2015, the Company incurred accounting fees of $Nil to a company controlled by the former CFO of the Company (2014 – $33,333).

(g) During the year ended June 30, 2015, the Company incurred salaries and wages expense of $Nil (2014 – $52,231) and accounting fees of $Nil (2014 - $8,960) to relatives of former directors and officers of the Company.

(h) During the year ended June 30, 2015, the Company granted 4,550,000 (2014 - nil) stock options to directors and key employees and recorded share-based compensation in the amount of $227,500 (Note 14 (c)).

(i) During the year ended June 30, 2015, the Company repaid in full, the principal of $100,000 and interest totaling $8,551 to spouses of certain directors pursuant to a bridge loan agreement entered on September 3, 2013 (see also Note 9).

18. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(j) During the year ended June 30, 2015, the Company issued Nil non-transferable warrants to Dongbing (Derrick) Ma, a director of the Company (2014 – 4,000,000), for guaranteeing the loan between the Company and Weichun Ye and Yan Zeng (Note 11(c)).

(k) As at June 30, 2015, the Company has accrued $72,776 (2014 - $Nil) in accounts payable and accrued liabilities for bonuses to key management personnel.

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.

19. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS

(a) Fair Values of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, restricted term deposits, accounts payable, and due to related parties are reasonable estimates of fair values due to the relatively short periods to maturity and the commercial terms of these instruments. The carrying values of long-term debt and finance lease obligations at June 30, 2015 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 the Company's 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.

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.

Level 3 - Significant Unobservable Inputs
Unobservable (supported by little or no market activity) inputs.

Financial assets and liabilities measured at fair value on a recurring basis were presented on the Company's June 30, 2015 consolidated statement of financial position as follows:

(Expressed in Canadian Dollars)

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

(b) Fair Value Measurements (continued)

	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, 2015 $
Assets:				
Cash and cash equivalents	428,312	–	–	428,312
Restricted term deposits	106,341	–	–	106,341

(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 restricted term deposits with major financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. As at June 30, 2015, the Company has significant accounts receivable from one major customer totaling $414,387 (June 30, 2014 - $391,908). The Company manages credit risk for trade and other receivables through established credit monitoring activities. As at June 30, 2015, the Company's maximum exposure to credit risk is the carrying value of cash and cash equivalents, accounts receivable and restricted term deposits.

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

	2015		2014	
	Over 90 days	**Total**	Over 90 days	Total
Provincial Liquor Boards	**$** –	**$** 718,590	–	$ 741,080
Other receivables	–	140,118	–	91,998
Total	**$** –	**$** 858,708	$ –	$ 833,078

(Expressed in Canadian Dollars)

19. 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 receivables are from 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 year to year.

(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, 2015 are as follows:

	Less Than 1 Year $	Years 2 and 3 $	Years 4 and 5 $	More than 5 Years $	Total $
Accounts payable	1,157,559	–	–	–	1,157,559
Due to related parties and long-term debt	713,500	17,500	–	–	731,000
Finance lease obligations	14,329		–	–	14,329
	1,885,388	17,500	–	–	1,902,888

As at June 30, 2015, the Company had a positive working capital of $494,627 (2014 – $1,016,126).

(iii) Interest Rate Price Risk

Certain of the Company's long-term debt instruments and finance lease obligations are subject to interest rate price risk as they carry fixed rates of interest.

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 income and comprehensive income for the year.

(Expressed in Canadian Dollars)

20. COMMITMENTS AND CONTINGENCIES

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

Fiscal Year		**Amount**
2016	**$**	**491,092**
2017		**331,478**
2018		**331,478**
2019		**334,856**
2020		**262,089**
	$	**1,750,993**

(b) At June 30, 2015, the Company had issued a general excise bond of $45,000 in favour of the Canada Border Services Agency, Customs & Excise.

(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). As at June 30, 2015, $100,000 is undrawn from the line of credit. The Company's bank indebtedness of $36,966 at June 30, 2014, represents cheques issued in excess of funds on deposit.

21. 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 (2014 - $100,000) related to its bank line of credit (see Note 8), and is in compliance with this requirement at June 30, 2015. 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 long-term debt and through finance lease arrangements.

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

		2015		2014
Long-term debt (Note 11)	**$**	**692,339**	$	915,197
Finance lease obligations (Note 12)		**14,329**		53,703
Shareholders' equity		**6,207,913**		4,378,185
	$	**6,914,581**	$	5,347,085

22. REVENUES

During the year ended June 30, 2015, the Company had sales of $4,957,632 (2014 - $4,801,625) to the Manitoba Liquor and Lotteries Commission which accounted for 62% of its revenues (2014 - 64%) and sales of $905,285 ($624,363) with the British Colombia Liquor Distribution Board which accounted for 11% of its revenues (2014 - 7%).

		2015		2014
GROSS REVENUES	**$**	**9,160,020**	$	9,451,371
LESS: EXCISE TAX AND PROVINCIAL MARK-UP		**1,222,159**		1,905,912
REVENUES	**$**	**7,937,861**	$	7,545,459

(Expressed in Canadian Dollars)

23. EMPLOYEE BENEFITS

During the year ended June 30, 2015, the Company incurred $2,195,178 in employee benefits (2014 - $2,103,463) of which $1,282,118 (2014 - $1,207,366) is included in selling, general and administrative expense and $913,060 (2014 - $896,097) is included in cost of sales.

24. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a breakdown of accounts payable and accrued liabilities:

		2015		2014
Trade accounts payable	**$**	**712,869**	$	602,553
GST payable (recoverable)		**173,089**		(93,460)
Accrued payroll and bonuses		**159,358**		139,961
Other accrued liabilities		**112,243**		161,659
	$	**1,157,559**	$	810,713

25. SUBSEQUENT EVENT

On July 20, 2015, the Company entered into a 16-month standstill agreement with Premier Diversified Holdings Inc. (“Premier”), whereby Premier would withdraw its previously announced plan on June 26, 2015 to launch an unsolicited take-over bid to acquire 51% of the issued and outstanding common shares of the Company. As part of the agreement, Premier will be afforded two nominees to be appointed to the Company’s board of directors and has been granted the right to acquire up to 19.99% of the Company’s outstanding shares with the opportunity to maintain such equity ownership in the event of the undertaking of any future equity financings.