RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2015 AND 2014

UNAUDITED

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited; Expressed in Canadian Dollars)

		December 31, 2015		June 30, 2015
ASSETS				
Current				
Cash and cash equivalents	$	**291,897**	$	428,312
Accounts receivable (Note 16(c) (i))		**552,910**		858,708
Inventories (Note 4)		**1,181,139**		1,017,236
Prepaid expenses and deposits		**256,953**		46,849
		2,282,899		2,351,105
PROPERTY AND EQUIPMENT (Note 5)		**2,373,818**		2,438,837
INTANGIBLE ASSETS (Note 6)		**1,950,675**		1,941,229
RESTRICTED TERM DEPOSITS (Note 7)		**106,341**		106,341
DEPOSITS		**11,967**		11,439
DEFERRED TAX ASSETS		**1,265,000**		1,265,000
	$	**7,990,700**	$	8,113,951
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 20)	$	**946,408**	$	1,157,559
Due to related parties (Note 15)		**11,183**		10,561
Current portion of long-term debt (Note 9)		**105,000**		674,029
Current portion of finance lease obligations (Note 10)		**–**		14,329
		1,062,591		1,856,478
LONG-TERM DEBT (Note 9)		**665,000**		18,310
UNEARNED LICENSE FEES (Note 11)		**18,750**		31,250
		1,746,341		1,906,038
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 12)		**12,283,087**		12,283,087
SHARE-BASED PAYMENTS RESERVES		**3,845,677**		3,798,198
DEFICIT		**(9,884,405)**		(9,873,372)
		6,244,359		6,207,913
	$	**7,990,700**	$	8,113,951

COMMITMENTS AND CONTINGENCIES (Note 17)
SUBSEQUENT EVENT (Note 21)

Approved and authorized for issuance on behalf of the Board of Directors on February 29, 2016:

/s/ Alnesh Mohan
Alnesh Mohan, Director

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

RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; Expressed in Canadian Dollars)

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	**Six Months Ended December 31, 2015**	Six Months Ended December 31, 2014
REVENUES (Note 19)	**2,155,980**	1,991,297	**4,226,373**	3,993,939
COST OF SALES (Note 4)	**957,602**	875,017	**1,860,130**	1,974,207
GROSS MARGIN	**1,198,378**	1,116,280	**2,366,243**	2,019,732
EXPENSES				
Depreciation (Note 5)	**13,140**	17,035	**35,779**	46,275
Selling, general and administrative	**1,102,587**	889,425	**2,255,481**	1,862,148
	1,115,727	906,460	**2,291,260**	1,908,423
EARNINGS BEFORE OTHER INCOME (EXPENSE)	**82,651**	209,820	**74,983**	111,309
OTHER INCOME (EXPENSE)				
Interest on finance lease obligations (Note 10)	**2,178**	(3,154)	**1,048**	(7,799)
Interest on long-term debt (Note 9)	**(52,367)**	(33,275)	**(99,826)**	(67,961)
Other income (Note 11)	**6,250**	6,334	**12,762**	13,153
	(43,939)	(30,095)	**(86,016)**	(62,607)
INCOME (LOSS) BEFORE INCOME TAXES	**38,712**	179,725	**(11,033)**	48,702
INCOME TAXES				
Deferred income tax expense	**–**	–	**–**	–
NET INCOME AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**38,712**	179,725	**(11,033)**	48,702
EARNINGS (LOSS) PER SHARE (Note 13)				
Basic and diluted	**$ 0.00**	$ 0.00	**$ (0.00)**	$ 0.00

RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(**Unaudited; Expressed in Canadian Dollars**)

	Share Capital				
	Number of Shares	Value	Share-based payments reserves	Deficit	Total Shareholders' Equity
Balance, June 30, 2015	**87,083,788**	**$12,283,087**	**$3,798,198**	**$(9,873,372)**	**$6,207,913**
Comprehensive loss for the period	**–**	**–**	**–**	**(11,033)**	**(11,033)**
Share-based compensation	**–**	**–**	**47,479**	**–**	**47,479**
Balance, December 31, 2015	**87,083,788**	**$12,283,087**	**$3,845,677**	**$(9,884,405)**	**$6,244,359**

	Share Capital				
	Number of Shares	Value	Share-based payments reserves	Deficit	Total Shareholders' Equity
Balance, June 30, 2014	87,083,788	$12,283,087	$3,570,648	$(11,475,550)	$4,378,185
Comprehensive income for the period	–	–	–	48,702	48,702
Share issuance cost	–	(1,373)	–	–	(1,373)
Share-based compensation	–	–	78,679	–	78,679
Balance, December 31, 2014	87,083,788	$12,281,714	$3,649,327	$(11,426,848)	$4,504,193

RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited; Expressed in Canadian Dollars)

		Six Months Ended December 31, 2015		Six Months Ended December 31, 2014
CASH FLOWS PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net income (loss) for the period	**$**	**(11,033)**	$	48,702
Adjusted for non-cash items:				
Depreciation		**199,726**		216,391
Accretion of long-term debt		**35,532**		20,895
Accrued interest on long-term debt		**–**		(24,727)
Recognition of unearned license fee (Note 11)		**(12,500)**		(12,500)
Share-based compensation (Note 12 (b))		**47,479**		78,679
		259,204		327,440
Net changes in non-cash working capital items:				
Accounts receivable		**305,798**		140,642
Prepaid expenses and deposits		**(210,632)**		66,514
Inventories		**(163,903)**		(155,279)
Due to and from related parties		**622**		(24,000)
Accounts payable and accrued liabilities		**(211,151)**		53,369
		(20,062)		408,686
INVESTING ACTIVITIES				
Purchases of property and equipment		**(134,394)**		(222,637)
Acquisition of intangible assets		**(9,759)**		–
		(144,153)		(222,637)
FINANCING ACTIVITIES				
Proceeds from long-term debt		**788,000**		–
Repayment of demand loan		**–**		(100,000)
Share issuance cost		**–**		(1,373)
Repayment of bank indebtedness		**–**		(30,408)
Repayment of long-term debt		**(745,871)**		(200,623)
Repayment of finance lease obligations		**(14,329)**		(16,679)
		27,800		(349,083)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(136,415)**		(163,034)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**428,312**		662,055
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**291,897**	$	499,021
CASH AND CASH EQUIVALENTS CONSIST OF:				
Demand deposits	**$**	**291,897**	$	499,021

SUPPLEMENTAL CASH FLOW INFORMATION (Note 14)

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 condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at December 31, 2015, the Company had a positive working capital of $1,220,308 and accumulated losses since inception of $9,884,405. The continued operation of the Company is dependent on its ability to obtain financing sufficient to generate profitable operations in the future. There is no guarantee that the Company will be able to raise this additional financing.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

a) Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the Company's June 30, 2015 annual audited consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on February 29, 2016.

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

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 December 31, 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)(i)	United States	0%	United States Dollar

(i) As at December 31, 2015 the Company owned 0% interest in Russell USA LLC, however, was able to exercise control of the entity, therefore it has been consolidated.

Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions, are eliminated in preparing the condensed consolidated interim 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.

(Unaudited; Expressed in Canadian Dollars)

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

d) Significant Accounting Estimates and Judgments

The preparation of these condensed financial statements requires management to make judgments in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements may include recovery of accounts receivable, inventory valuation, the estimated useful life of long-lived assets, assessment of long-term investment, estimates used in impairment assessments of long-lived assets, valuation of deferred income tax assets and liabilities and estimates used in calculating share-based compensation. Management also makes assumptions and critical estimates. Critical estimates are those which are most subject to uncertainty and have the most significant risk of resulting in a material change to the carrying amounts of assets and liabilities within the next year. Judgments, assumptions and estimates are based on historical experience, business trends and all available information that management considers relevant at the time of the preparation of the financial statements. However, future events and their effects cannot be anticipated with certainty and so as confirming events occur, actual results could ultimately differ from assumptions and estimates. Such differences could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that have been used in the preparation of these condensed interim financial statements are summarized in the audited consolidated financial statements of the Company for the year ended June 30, 2015. These statements should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2015.

4. INVENTORIES AND COST OF SALES

	December 31, 2015	June 30, 2015
Finished goods	**$ 303,962**	$ 208,531
Work-in-progress	**309,634**	317,066
Raw materials	**567,543**	491,639
	$ 1,181,139	$ 1,017,236

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

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	**Six Months Ended December 31, 2015**	Six Months Ended December 31, 2014
Cash component:				
Inventories	**$ 866,887**	$ 799,920	**$ 1,696,183**	$ 1,804,091
Non-cash component:				
Depreciation (Note 5)	**90,715**	75,097	**163,947**	170,116
	$ 957,602	$ 875,017	**$ 1,860,130**	$ 1,974,207

(Unaudited; Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT

	Computer $	Equipment $	Leasehold improvements $	Office furniture and fixtures $	Vehicles $	Refundable containers $	Total $
Cost							
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**
Additions/(Disposals)	**–**	**150,439**	**(18,178)**	**–**	**–**	**2,133**	**134,394**
Balance as at December 31, 2015	**77,931**	**6,220,678**	**1,490,116**	**63,844**	**486,972**	**964,487**	**9,304,028**
Accumulated Depreciation							
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**
Depreciation	**1,081**	**139,353**	**15,623**	–	**23,689**	**19,668**	**199,413**
Balance as at December 31, 2015	**72,881**	**4,044,592**	**1,341,105**	**63,844**	**470,757**	**937,032**	**6,930,210**
Carrying amounts							
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
December 31, 2015	**5,051**	**2,176,086**	**149,011**	**–**	**16,215**	**27,455**	**2,373,818**

Equipment includes assets under finance leases with a cost of $439,719 (June 30, 2015 – $439,719) and accumulated depreciation of $128,196 (June 30, 2015 – $118,517). Vehicles includes assets under finance leases with a cost of $473,775 (June 30, 2015 – $473,775) and accumulated depreciation of $457,398 (June 30, 2015 – $433,709). The Company has recognized depreciation of $19,668 in inventory (December 31, 2014 - $34,942), $35,779 in expenses (December 31, 2014 - $46,275) and $144,279 in cost of sales (December 31, 2014 - $77,548).

(Unaudited; Expressed in Canadian Dollars)

6. INTANGIBLE ASSETS

		Brands and Trademarks		Website		Total
Cost						
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
Additions	$	2,259	$	7,500	$	9,759
Balance as at December 31, 2015	**$**	**1,943,488**	**$**	**13,475**	**$**	**1,956,963**
Accumulated Depreciation						
Balance as at June 30, 2014	$	–	$	5,975	$	5,975
Balance as at June 30, 2015	$	–	$	5,975	$	5,975
Depreciation for the period	$	–	$	313	$	313
Balance as at December 31, 2015	**$**	**–**	**$**	**6,288**	**$**	**6,288**
Carrying amounts						
June 30, 2014	$	1,935,268	$	–	$	1,935,268
June 30, 2015	$	1,941,229	$	–	$	1,941,229
December 31, 2015	**$**	**1,943,488**	**$**	**7,187**	**$**	**1,950,675**

7. RESTRICTED TERM DEPOSITS

A term deposit of $100,000 has been pledged as security for a $100,000 bank line of credit (June 30, 2015 – $100,000). As at December 31, 2015, accrued interest has been earned on the term deposit in the amount of $6,341 (2014 - $Nil).

8. 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, 2015, the Company's interest in the Licensee decreased to 7.69% and remained the same as at December 31, 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 11). 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 loss.

(Unaudited; Expressed in Canadian Dollars)

9. LONG-TERM DEBT

	December 31, 2015	June 30, 2015
Term bank loan, bearing interest at floating base rate plus a variance of 1%, repayable in monthly installments of $1,750 plus interest matured on August 15, 2015, secured by the assets of Fort Garry (a)	**–**	$ 3,210
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
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
Term bank loan, bearing interest at a base rate of 5.15% plus a variance of 1%, repayable in monthly installments of $8,750 plus interest maturing on April 15, 2023, secured by the assets of Russell and Fort Garry (d)	**770,000**	–
	770,000	692,339
Less: current portion of long-term debt	**(105,000)**	(674,029)
Long-term portion of long-term debt	**$ 665,000**	$ 18,310

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% matured 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 period ended December 31, 2015, the Company recorded interest expense of $315 (2014 - $2,674), of which $40 (2014 - $884) 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 loss.

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.

9. LONG-TERM DEBT (continued)

(b) 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.

On July 26, 2013, the Company negotiated to further amend and extend repayment of the balance of $630,000 of the loan in Note 9(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 period ended December 31, 2015, the Company recorded interest expense of $6,100 (2014 - $27,158), of which $1,030 (2014 - $4,588) 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 loss. On October 2, 2015, the balance of the loan and interest were repaid in full.

(Unaudited; Expressed in Canadian Dollars)

9. LONG-TERM DEBT (continued)

(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 period ended December 31, 2015 was $41,900 (2014 - $23,344) and $nil is owing for interest at December 31, 2015 (June 30, 2015 - $27,654). The Company also recorded interest expense of $41,600 (2014 - $21,219) 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 12(b)). 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. On October 2, 2015, the balance of the loan and interest were repaid in full.

(d) On October 1, 2015, the Company entered into a loan agreement with Business Development Bank of Canada ("BDC") for $788,000. The BDC Loan, bearing interest at a base rate of 5.15% plus a variance of 1% maturing April 15, 2023 secured by the assets of Fort Garry Brewing Company and Russell Brewing Company Ltd. During the period ended December 31, 2015, the Company recorded interest expense of $9,911 which has been recorded as interest on long-term debt in the consolidated statement of comprehensive loss.

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

Fiscal Year		**Amount**
2016	**$**	**52,500**
2017		**105,000**
2018		**105,000**
2019		**105,000**
2020		**105,000**
2021		**105,000**
2022		**105,000**
2023		**87,500**
	$	**770,000**

(Unaudited; Expressed in Canadian Dollars)

10. FINANCE LEASE OBLIGATIONS

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

		2016
Total minimum lease payments	$	5,598
Less: amount representing interest		(5,598)
Current finance lease obligations (net)	$	–

Interest expense recovery on finance lease obligation for the period ended December 31, 2015 is $1,048 (2014 – expense of $7,799).

11. UNEARNED LICENSE FEES

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

Pursuant to the License Agreement, the Company received an initial licensing fee of $100,000 (See Note 8). 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 December 31, 2015, the Company has recognized $262 (2014 - $653) in royalties and $12,500 (2014 - $12,500) in license fees earned under the agreement, which has been recorded as other income in the statement of operations. As at December 31, 2015, the unearned license fee is $18,750 (June 30, 2015 - $31,250).

12. SHARE CAPITAL

(a) Authorized Share Capital

The Company’s authorized share capital consists of an unlimited number of common shares without par value.

(b) Stock Options

Under the Company’s stock option plan (the “Plan”), the Company’s board of directors is authorized to grant stock options to directors, officers, consultants and employees of the Company not to exceed 10% of the issued and outstanding common shares of the Company from time to time. Stock options granted under the Plan are exercisable over a period not exceeding five years from the date granted. Exercise prices may not be less than the market price of the common shares on the date of grant less applicable discounts permitted by the TSX Venture Exchange. Vesting terms are determined by the board of directors on the date of grant.

(Unaudited; Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

(b) Stock Options (continued)

On July 6, 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 period ended December 31, 2015, the Company recorded a total amount of $47,479 (2014 - $78,679) compensation cost included in selling, general and administrative expense relating to these options.

Stock option activity during the period ended December 31, 2015 and the year ended June 30, 2015 is presented below:

	December 31, 2015			June 30, 2015		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of period	**50,000**	**$**	**0.10**	50,000	$	0.10
Granted	**4,550,000**		**0.07**	4,550,000		0.07
Forfeited	**(200,000)**		**–**	–		–
Outstanding, end of period	**4,400,000**	**$**	**0.07**	4,600,000	$	0.07

Certain director resigned resulting in forfeiture of 200,000 stock options as at December 31, 2015.

At December 31, 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**	**0.01**	**0.00**	**50,000**	**0.00**
0.07	**4,350,000**	**3.48**	**0.07**	**3,222,917**	**0.07**
	4,400,000	**3.48**	**0.07**	**3,272,917**	**0.07**

(Unaudited; Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

(c) Warrants

Warrant activity during the period ended December 31, 2015 and the year ended June 30, 2015 is presented below:

	December 31, 2015		June 30, 2015	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding and exercisable, beginning of period	**4,000,000**	**$0.05**	13,640,000	$0.09
Granted	**–**	**–**	–	–
Expired	**(4,000,000)**	**$0.05**	(9,640,000)	$0.10
Outstanding, end of period	**0**	–	4,000,000	$0.05

13. EARNINGS (LOSS) PER SHARE

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

	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
Net income (loss)	**$ (11,033)**	$ 48,702
Common shares outstanding, beginning of period	**87,083,788**	87,083,788
Number of common shares outstanding during the period	**87,083,788**	87,083,788
Earnings (Loss) per share (Basic and diluted)	**$ (0.00)**	$ 0.00

The number of shares outstanding used in the computation of loss per share for the period ended December 31, 2015 was 87,083,788 (December 31, 2014 – 87,083,788). Outstanding stock options, warrants, and agent unit options have not been considered in the computation of diluted loss per share as the result is anti-dilutive.

(Unaudited; Expressed in Canadian Dollars)

14. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
Cash paid for:		
Interest	**$ 50,592**	$ 26,752

15. 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:

	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
Short-term benefits:		
Salaries and management fees [Note 15(a)]	**$ 137,901**	$ 176,829
Directors fees [Note 15(b)]	**18,000**	18,000
Share-based payments [Note 15(c)]	**47,479**	78,679
	$ 203,380	$ 273,508

(a) During the period ended December 31, 2015, the Company incurred management and miscellaneous fees to a company controlled by the CEO in the amount of $75,237 (2014 – $110,229) and salaries and benefits to the CFO in the amount of $62,664 (2014 – $66,600). As at December 31, 2015, the Company owed $11,183 to a company controlled by the CEO (2014 – $10,384), which is non-interest bearing, unsecured and due on demand.

(b) During the period ended December 31, 2015, the Company incurred director fees of $18,000 (2014 – $18,000). As at December 31, 2015, the Company owed $Nil to the independent directors (2014 – $Nil), which were non-interest bearing, unsecured and due on demand.

(c) During the period ended December 31, 2015, the Company granted nil (2014 – 4,550,000) stock options to directors and key employees and recorded share-based compensation in the amount of $47,479 (2014 – $78,679) (Note 12 (b)).

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.

(Unaudited; Expressed in Canadian Dollars)

16. 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 December 31, 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 December 31, 2015 consolidated interim statement of financial position as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets For Identical Instruments (Level 1) $	**Significant Other Observable Inputs (Level 2) $**	**Significant Unobservable Inputs (Level 3) $**	**Balance as of December 31, 2015 $**
Assets:				
Cash and cash equivalents	291,897	–	–	291,897
Restricted term deposits	106,341	–	–	106,341

(Unaudited; Expressed in Canadian Dollars)

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

(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 December 31, 2015, the Company has significant accounts receivable from one major customer totaling $332,936 (June 30, 2015 - $414,387). The Company manages credit risk for trade and other receivables through established credit monitoring activities. As at December 31, 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:

	December 31, 2015		June 30, 2015	
	Over 90 days	**Total**	Over 90 days	Total
Provincial Liquor Boards	**$ –**	**$ 552,167**	$ –	$ 718,590
Other receivables	**–**	**743**	–	140,118
Total	**$ –**	**$ 552,910**	$ –	$ 858,708

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 with government agencies. While substantially all of the Company's accounts receivable are from provincial government liquor authorities, the timing of receipts of large balances may vary significantly from period to period.

(ii) Liquidity Risk

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

Contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2015 are as follows:

	Less Than 1 Year $	Years 2 and 3 $	Years 4 and 5 $	More Than 5 Years $	Total $
Accounts payable and accrued liabilities	**946,408**	–	–	–	946,408
Due to related parties and long-term debt (Note 9)	**116,183**	210,000	210,000	245,000	781,183
	1,062,591	210,000	210,000	245,000	1,727,591

As at December 31, 2015, the Company had a positive working capital of $1,220,308.

(Unaudited; Expressed in Canadian Dollars)

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

(c) Financial Risks (continued)

(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 (loss) and comprehensive income (loss) for the year.

17. 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	**$**	**370,940**
2017		**630,731**
2018		**630,731**
2019		**636,786**
2020		**564,561**
	$	**2,833,749**

(b) At December 31, 2015, the Company had issued a general excise bond of $45,000 in favour of the Minister of National Revenue of Canada.

(c) The Company has a bank operating line of credit with a limit of $100,000 which bears interest at prime plus 1% secured by a term deposit of $100,000 (see Note 7). As at December 31, 2015, $100,000 is undrawn from the line of credit.

18. CAPITAL MANAGEMENT

The Company manages its capital structure in order to ensure sufficient resources are available to meet operational requirements. The Company is required to maintain term deposits of $100,000 (June 30, 2015 - $100,000) related to its bank line of credit (see Note 7). There are no other externally imposed capital requirements.

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

(Unaudited; Expressed in Canadian Dollars)

18. CAPITAL MANAGEMENT (continued)

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

	December 31, 2015	June 30, 2015
Long-term debt (Note 9)	**$ 770,000**	$ 692,339
Finance lease obligations (Note 10)	**–**	14,329
Shareholders' equity	**6,244,359**	6,207,913
	$ 7,014,359	$ 6,914,581

19. REVENUES

During the period ended December 31, 2015, the Company had sales of $2,735,303 (2014 - $2,624,445) to the Manitoba Liquor and Lotteries Commission which accounted for 57% of its revenues (2014 - 52%).

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	**Six Months Ended December 31, 2015**	Six Months Ended December 31, 2014
GROSS REVENUES	**2,430,918**	2,399,978	**4,778,011**	4,720,258
LESS: EXCISE TAX AND PROVINCIAL MARK-UP	**274,938**	408,681	**551,638**	726,319
REVENUES	**2,155,980**	1,991,297	**4,226,373**	3,993,939

20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	December 31, 2015	June 30, 2015
Trade accounts payable	**$ 372,241**	$ 712,869
GST payable	**52,179**	173,089
Accrued payroll and bonuses	**164,817**	159,358
Other accrued liabilities	**357,171**	112,243
	$ 946,408	$ 1,157,559

21. SUBSEQUENT EVENT

On February 3, 2016, pursuant to the loan agreement entered with Business Development Bank of Canada (BDC) on July 3, 2015, the Company finalized a loan of $250,000 which was used to purchase production equipment. The BDC Loan, bearing interest at base rate of 5.15% plus a variance of 1% per year maturing April 15, 2023, is secured by the assets of Fort Garry Brewing Company Ltd.