



RUSSELL BREWERIES INC. ENTERS INTO TWO ASSET PURCHASE AGREEMENTS FOR SALE OF SUBSTANTIALLY ALL OF ITS OPERATING BUSINESSES

FOR IMMEDIATE RELEASE

VANCOUVER, Canada – October 7, 2016 - Russell Breweries Inc. (TSX-V:RB) ("**Russell**" or the "**Company**") announces that the Company has entered into two separate purchase agreements pursuant to which Russell has agreed to sell to separate purchasers, substantially all of the assets related to its two operating businesses. The two purchase agreements are the result of the previously announced long and extensive strategic review process undertaken by the Board of Directors of the Company and its Special Committee that commenced in 2015.

Sale of Fort Garry

The Company and its wholly-owned subsidiary, Fort Garry Brewing Company Ltd. ("**FGBC**"), have entered into an asset purchase agreement (the "**Fort Garry Sale Agreement**") with Fort Garry Brewing Company LP (the "**Fort Garry Purchaser**"), whereby the Company has agreed to sell to the Fort Garry Purchaser, all of the property and assets used or utilized by the Company in its business of producing beers in Manitoba under the name "Fort Garry Brewing Company" for a purchase price of \$7,715,545.00, subject to applicable working capital adjustments at closing (the "**Fort Garry Sale**"). The purchase price will be paid by the Fort Garry Purchaser on the closing of the Fort Garry Sale as follows:

- \$6,165,545.00 in cash;
- the surrender of a \$200,000.00 deposit paid in trust on execution of the Fort Garry Sale Agreement; and
- the deposit with Computershare Trust Company of Canada (the "**Escrow Agent**") of:
 - \$350,000.00, to cover working capital adjustments for a period until the working capital is finally determined; and
 - \$1,000,000.00, to cover any indemnification claims that may be made by the Fort Garry Purchaser for a period of one year following closing, plus interest of 5% per annum to be paid by the Fort Garry Purchaser on the amount, if any, by which the indemnification amount released to FGBC is greater than \$400,000.

The Company intends to distribute substantially all of the proceeds received, following the repayment of all its outstanding debts, to its shareholders by way of return of capital on a date to be determined by the Board of Directors after all adjustments, holdbacks and expenses have been determined.

The Purchaser is a newly established Manitoba-based Limited Partnership, backed by one of the largest diversified private equity/venture capital firms within the prairie provinces.

The Fort Garry Sale Agreement provides that the Company is subject to non-solicitation provisions, but provides that the Company's Board may, under certain circumstances, terminate the Fort Garry Sale Agreement in favour of an unsolicited superior proposal, subject to payment of a termination fee of \$750,000 to the Fort Garry Purchaser and subject to a right in favour of Fort Garry Purchaser to match a superior proposal.

A copy of the Fort Garry Sale Agreement will be filed on SEDAR.

Sale of Russell Brewing

The Company and FGBC have also entered into an asset purchase agreement with 1083256 B.C. LTD (the "**Russell Brewing Purchaser**"), a company owned by Yong Lin and Xiaomin Wang (the "**Russell Brewing Sale Agreement**"), whereby the Company has agreed to sell to the Russell Brewing Purchaser, all of the property and assets used or utilized by the Company in its business of producing beers in British Columbia under the name "Russell Brewing Company" for a purchase price of \$1,800,000.00, subject to working capital adjustments at closing (the "**Russell Brewing Sale**").

The purchase price for the Russell Brewing Sale will be paid by the Russell Brewing Purchaser as follows:

- on the closing of the Russell Brewing Sale, payment of:
 - \$180,000.00 in cash; and
 - the surrender of a \$180,000.00 deposit paid in trust on the execution of the Russell Brewing Sale Agreement; and
- the remainder of the purchase price will be payable by the Russell Brewing Purchaser in instalments as follows:
 - on the date that the final working capital is finally determined, payment of \$80,000, subject to any working capital adjustments; and
 - either:
 - on the date that is 6 months from the closing of the Russell Brewing Sale, the deposit with the Escrow Agent of \$200,000, to cover any indemnification claims that may be made by the Russell Brewing Purchaser for a period of one year following closing, and payment to FGBC of the remainder of the purchase price, being \$1,160,000, plus interest of 7.5% per annum, compounded annually, on such amounts; or
 - on the date that is 6 months from the closing of the Russell Brewing Sale, payment to FGBC of \$680,000 and, on the date that is 12 months from the closing of the Russell Brewing Sale, payment to FGBC of \$200,000, subject to any indemnification claims that may be made by the Russell Brewing Purchaser, and the remainder of the purchase price, being \$480,000, plus interest of 7.5% per annum, compounded annually, on such amounts.

As collateral security for the payment of the remaining instalments of the purchase price, the Russell Brewing Purchaser has agreed to execute and deliver in favour of FGBC, a first ranking general security agreement covering all of the Russell Brewing assets.

The Company intends to distribute substantially all of the proceeds received on closing of the Russell Brewing Sale, following the repayment of all its outstanding debts, to its shareholders by way of return of capital, with the remaining proceeds to be distributed after all adjustments, holdbacks and expenses have been determined one year following closing.

The Russell Brewing Sale Agreement provides that the Company is subject to non-solicitation provisions, but provides that the Company's Board may, under certain circumstances, terminate the Russell Brewing Sale Agreement in favour of an unsolicited superior proposal, subject to payment of a termination fee of \$160,000 to the Russell Brewing Purchaser and subject to a right in favour of the Russell Brewing Purchaser to match a superior proposal.

A copy of the Russell Brewing Sale Agreement will be filed on SEDAR.

Shareholder Approval

Given that the Fort Garry Sale would represent the sale of substantially all of the undertaking of the Company, the Company must obtain shareholder approval by way of a special resolution of its shareholders in order to proceed with the Fort Garry Sale. In addition, since the Russell Brewing Sale may represent substantially all of the undertaking of the Company at the time of the Russell Brewing Sale (in particular if the Fort Garry Sale has been completed prior to the completion of the Russell Brewing Sale), the Company may be required to obtain shareholder approval by way of special resolution of its shareholders in order to proceed with the Russell Brewing Sale. As a result, the Fort Garry Sale and the Russell Brewing Sale, if required, are conditional on the Company obtaining shareholder approval.

Each of the Fort Garry Purchaser and the Russell Brewing Purchaser have entered into support agreements with all of the directors and/or officers of the Company holding or controlling Common shares of Russell (the "**Common Shares**") and with certain other shareholders of the Company, including Denver Smith and Premier Diversified Holdings Inc., (collectively, the "**Support Shareholders**") whereby each Supporting Shareholder has agreed to vote in support of approving the Fort Garry Sale and the Russell Brewing Sale. The Company understands that the Support Shareholders currently collectively own or control 34,587,526 Common Shares, being approximately 40% of the issued and outstanding Common Shares. The Company anticipates holding a meeting of its shareholders to consider the approval of the Fort Garry Sale and the Russell Brewing Sale at the end of November 2016.

Background to the Sale Agreements

The entering into of the Fort Garry Sale Agreement and the Russell Brewing Sale Agreement was the result of an extensive process that began in November 2015 and included the review of a number of potential strategic alternatives with various third parties. The Special Committee of the Board of Directors of Russell formed by the Board has received a fairness opinion from Working Capital Corporation that indicates that, on the basis of certain assumptions, explanations and limitations, the Fort Garry Sale is fair, from a financial point of view, to the shareholders of the Company. In addition, the Special Committee received a fairness opinion from Evans & Evans, Inc. that indicates that, on the basis of certain assumptions, explanations and limitations, the Russell Brewing Sale is fair, from a financial point of view, to the shareholders of the Company.

The aggregate gross proceeds, subject to any working capital adjustments, of the Fort Garry Sale and the Russell Brewing Sale of \$9,515,545, equals, following deduction of all outstanding debts and the estimated expenses of the Fort Garry Sale and the Russell Brewing Sale, approximately \$0.085 on a per share basis, which represents a premium of 35% on the Russell share price based on a volume weighted average price of the shares on the TSX Venture Exchange over the 120 day period prior to the execution of the Fort Garry Agreement and the Russell Brewing Agreement.

The closing of each of the Fort Garry Sale and the Russell Brewing Sale is subject to a number of customary closing conditions, including receipt of shareholder approval and the approval of the TSX Venture Exchange.

The Company intends to call and hold its annual and special meeting of shareholders to consider the Fort Garry Sale and Russell Brewing Sale at the end of November, 2016, and intends to mail shareholder meeting materials to its shareholders in early November, 2016. These meeting materials will provide further details regarding the Fort Garry Sale and Russell Brewing Sale and the Company's plans following completion of these transactions.

The Company anticipates that the closing of the Fort Garry Sale and the Russell Brewing Sale will occur at the end of November 2016.

"After an extensive process that started in early 2015 to evaluate and pursue various strategic options for the company, we are very pleased with the signing of these two asset purchase agreements. We look forward to closing these two transactions and providing a return of capital to our shareholders in the near future." said Benjamin Li Yu, Director and CEO of Russell Breweries Inc.

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About Russell Breweries Inc.

Russell Breweries Inc. is a leading Western Canadian brewer. It brews, markets, sells and distributes a diverse portfolio of award winning beers that are produced by its wholly owned regional breweries: Russell Brewing Company in British Columbia and Fort Garry Brewing Company in Manitoba. Both breweries are dedicated to producing high quality, flavourful ales and lagers. Russell Breweries Inc. is publicly listed on the TSX Venture Exchange (TSX-V:RB).

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Forward Looking Statements

This release includes certain statements that, to the extent they are not statements of historical fact, constitute forward-looking information and forward-looking statements which reflect the current view of Russell with respect to the Company's objectives, plans, goals, strategies, future growth, results of operations, financial and operating performance and business prospects and opportunities.

Wherever used, the words "may", "will", "anticipate", "intend", "expect", "estimate", "plan", "believe" and similar expressions identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indications of whether, or the times at which, such events, performance or results will be achieved. All of the statements and information in this release containing forward-looking statements or forward-looking information are qualified by these cautionary statements. These forward-looking statements and information include statements regarding the completion of the Fort Garry Sale and the Russell Brewing Sale, , the calling of a shareholders' meeting of the Company, the terms of the Fort Garry Sale and the Russell Brewing Sale, including the purchase price to be received, the release or distribution to shareholders of any amounts to be received from the Fort Garry Sale and the Russell Brewing Sale, and the receipt of all the necessary approvals to complete the Fort Garry Sale and the Russell Brewing Sale.

Forward-looking statements and forward-looking information are based on information available at the time they are made, underlying estimates and assumptions made by management and management's good faith belief with respect to future events, performance and results, and are subject to inherent risks and uncertainties surrounding future expectations generally. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements and forward-looking information contained in this release. Such risks and uncertainties include, but are not limited to the ability of the Company to satisfy the conditions to the Fort Garry Sale pursuant to the Fort Garry Sale Agreement and the Russell Brewing Sale pursuant to the Russell Brewing Sale Agreement, receipt of all necessary approvals to complete the Fort Garry Sale and the Russell Brewing Sale including receipt of shareholder approval and TSX Venture Exchange approval, any working capital adjustments to the purchase price for the Fort Garry Sale pursuant to the Russell Brewing Sale Agreement and the Russell Brewing Sale pursuant to the Russell Brewing Sale Agreement, any indemnification claims by the Fort Garry Purchaser and the Russell Brewing Purchaser, any delay in payment or inability to by the Fort Garry Purchaser or the Russell Brewing Purchaser of the purchase price for the assets, the estimated expenses to complete the Fort Garry Sale and the Russell Brewing Sale, the Support Shareholders complying with the relevant support agreements, the timing and amount of the distribution to Shareholders, including payment of all expenses and liabilities of the Company, competition with its main competitors in the Canadian brewing industry, government regulation of the Company's business, state of the public markets, global economic conditions, the exposure to commodity price risk with respect to agricultural and other raw materials used to produce the Company's products, dependence of key personnel, hazards and liability risks faced by all brewers, competitors developing beers of the same or similar tastes and qualities to the Company's beers the seasonal nature of the alcoholic beverage industry, changes in customer demand, preferences and attitudes, and the ability to protect the intellectual property rights of the Company, among other things.

Russell cautions readers that this list of factors is not exhaustive and that should certain risks or uncertainties materialize, or should underlying estimates or assumptions prove incorrect, actual events, performance and results may vary significantly from those expected. There can be no assurance that the actual results, performance, events or activities anticipated by the Company will be realized or, even if

substantially realized, that they will have the expected consequences to, or effects on, the Company. Readers are urged to consider these factors carefully in evaluating forward-looking information and forward-looking statements and are cautioned not to place undue reliance on any forward-looking information or forward-looking statements.

The forward-looking statements and forward-looking information are made as of the date hereof, and the Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements and forward-looking information contained herein to reflect future results, events or developments. You should also carefully consider the matters discussed under "Risk Factors" in the Company's management's discussion and analysis filed on SEDAR at www.sedar.com.