RUSSELL BREWERIES INC.
Management's Discussion and Analysis
For the year ended June 30, 2016

This Management's Discussion and Analysis ("MD&A") of Russell Breweries Inc. ("the Company) dated October 21, 2016 provides an analysis of its results of operation and financial condition for the year ended June 30, 2016. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended June 30, 2016 and 2015. Additional information related to Russell Breweries Inc. is available on SEDAR at www.sedar.com and on the Company's website at www.russellbeer.com.

The audited consolidated financial statements and related notes of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial amounts in this MD&A are in Canadian dollars, except as otherwise indicated.

This MD&A was approved and authorized for issuance by the Board of Directors on October 21, 2016.

FORWARD LOOKING STATEMENTS

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

OVERVIEW

Through its wholly-owned subsidiary Fort Garry Brewing Company Ltd. with two breweries operating as Russell Brewing Company Ltd. located in Surrey, British Columbia, and Fort Garry Brewing Company Ltd. located in Winnipeg, Manitoba, the Company produces premium quality beers for pubs, restaurants and liquor stores. The Company acquired Fort Garry Brewing Company Ltd. ("Fort Garry") on October 22, 2007. Fort Garry is Manitoba's oldest and largest brewer and distributor of premium quality beers. The Company's operations include production facilities in Surrey, British Columbia and Winnipeg, Manitoba, corporate offices in Surrey, British Columbia, storage facilities, brewing equipment, and delivery and sales vehicles. Both breweries produce a variety of limited and seasonal products in addition to their main product lines including: Russell Cream Ale, Russell Pale Ale, Russell Extra Special Lager, Russell IP'eh! India Pale Ale, A Wee Angry Scotch Ale, Blood Alley Bitter, Rocky Mountain Pilsner, Eastern Promises Czech Pilsner, Hop Therapy India Session Ale, Fort Garry Dark Ale, Fort Garry Pale Ale, Fort Garry Premium Light, Fort Garry Red and Stone Cold Lager.

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.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS

On July 9, 2014, the Company announced that pursuant to its stock option plan, the Company has granted an aggregate of 4,550,000 options (the Options) to certain directors, officers, and employees of the Company. The Options have an exercise price of $0.07 per share and will vest according to schedules set by the Board of Directors of the Company. The Options are exercisable for a period of five years.

On September 5, 2014, pursuant to the bridge loan agreement entered on September 3, 2013, the Company repaid in full, the principal of $100,000 and interest.

On June 8, 2015, the Company won two medals at the 13th annual Canadian Brewing Awards: a gold medal for Punch Bowl in the American Style India Pale Ale category, and a bronze medal for Blood Alley in the English Style Pale Ale/Bitter category.

On June 26, 2015, Premier Diversified Holdings Inc. ("Premier") made an unsolicited offer to acquire 51% of the issued and outstanding common shares of the Company.

On June 30, 2015, the Company announced that, in response to the unsolicited offer by Premier on June 26, 2015, the Board of Directors of the Company adopted a shareholder rights plan (the Plan). The purpose of the Plan is to provide the Company with sufficient time to properly consider the bid and its impact on the Company, to encourage fair treatment of the shareholders of the Company in connection with any unsolicited take-over bid for the Company, and to develop, consider and pursue all alternatives and to assist in determining the alternative which is in the best interest of the Company. The Plan is not intended to deter this or any bid.

On July 3, 2015, the Company and its wholly-owned subsidiary, Fort Garry Brewing Company Ltd., have each entered into a loan agreement with the Business Development Bank of Canada (BDC) whereby BDC has agreed to advance to the Company and Fort Garry $788,000 and $250,000 respectively.

On July 9, 2015, the Company announced that its Board of Directors has unanimously recommended to its shareholders to reject the unfair partial offer of Premier to acquire up to 51% of the outstanding common shares of Russell (the Partial Offer) on the basis that the Partial Offer is unfair, inadequate, coercive and opportunistic.

On July 20, 2015, Mr. Alnesh Mohan and Mr. Sanjeev Parsad were appointed to the board of directors and Mr. Richard Ruijian Shi resigned as a director of the Company.

On July 21, 2015, the Company and Premier reached an agreement with respect to Premier's formal takeover bid for up to 51% of the outstanding common shares of Russell. Under the agreement, Premier has agreed to withdraw the bid and not take any action to take up any Russell shares under the bid.

On October 1, 2015, pursuant to the loan agreement entered with Business Development Bank of Canada on July 3, 2015, the Company finalized a loan of $788,000 which was used to repay in full the principal and interest of the two long-term debts (Note 9(b) and 9(c) of the consolidated financial statements).

On February 3, 2016, pursuant to the loan agreement entered with Business Development Bank of Canada on July 3, 2015, the Company finalized a loan of $250,000 which was used to purchase production equipment.

On October 5, 2016, the Company has entered into two separate purchase agreements pursuant to which it plans to sell to separate purchases, substantially all of the assets related to two of its operating businesses, Russell Brewing Company Ltd. and Fort Garry Brewing Company Ltd.

Currently, the Company's products are segmented into the following categories:

Categories	**Brands**
Russell Brewing Company	
Brewmasters Series	Hop Therapy India Session Ale, A Wee Angry Scotch Ale, Eastern Promises, Blood Alley Bitter, Russell IP'eh!, Peaks and Valleys Extra Pale Ale, Punch Bowl IPA Grape Fruit
Session Series	Russell Cream Ale, Russell Pale Ale, Russell Extra Special Lager
Seasonal Series	Black Death Porter, Happy Jack Pumpkin Ale, Russell Marzen, Naughty & Spiced Porter, Luck of the Irish Red Ale, White Rabbit Hefeweizen
Specialty Series	Punch Bowl IPA, Timbertrain Coffee Stout, Smokey The Beer, Farm Fresh IPA, North Star Stout
Collaboration Series	Pemberton Pilsner, GUUUD Ale, Cactus IPA, The Wedding Beer
Fort Garry Brewing Company	
FGB Classics	Fort Garry Dark, Fort Garry Pale, Fort Garry Rouge, Fort Garry Premium Light, Fort Garry Frontier Pilsner
Tall Cans	Happy Jack Pumpkin Ale, Sassy Saskatoon Berry Wheat Ale, Belgian Witbeir, Black IPA, Kona Imperia Stout, Angry Fish Pilsner, Evil Goat Doppel-Bock, Oktober-Fest, Big Buddha, Portage & Main IPA, Lime Lager, Raspberry Quencher, Maple Cream Ale, Naughty & Spiced Porter, Grid Iron Pilsner, Fort Garry Pilsner
Brewmasters Series	Kona Imperial Stout, Portage & Main IPA, Happy Jack Pumpkin Ale, Naughty & Spiced Porter, St. Nick's Porter, Munich Eisbock, Big Bison Bitter
Value Series	Rocky Mountain Pilsner, Stone Cold Lager, Two Rivers Lager

SELECTED INFORMATION

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

Selected Information	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014
	$	$	$
Statement of Comprehensive Income Data			
Net Revenues (after excise tax and provincial mark-up)	8,101,838	7,937,861	7,545,459
Earnings before interest and other income, taxes, depreciation and amortization (EBITDA) (1)	402,679	406,710	758,847
Adjusted EBITDA(2)	423,420	616,908	762,819
Total income (loss) from continuing operations	(99,669)	(360,822)	201,720
Operating income (loss) per share	(0.00)	(0.00)	0.00
Net income (loss) and comprehensive income	(319,669)	1,602,178	61,720
Basic and diluted earnings per share	(0.00)	0.02	0.00
Statement of Financial Position Data			
Total assets	8,017,493	8,113,951	7,271,987
Total long term financial liabilities	817,940	18,310	592,304
Cash dividends declared per share	Nil	Nil	Nil

(1) EBITDA represents earnings before interest, income taxes, depreciation and amortization. EBITDA is a non-IFRS earnings measure, therefore it does not have any standardized meaning prescribed by International Financial Reporting Standards and may not be similar to measures presented by other companies. Management uses this measurement to evaluate the operating results of the Company.

(2) Adjusted EBITDA represents EBITDA excluding changes in stock based compensations and other non-recurring items:

Selected Information	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014
	$	$	$
EBITDA	402,679	406,710	758,847
Add: Stock-based compensation expense	54,726	227,550	(1,193)
Add (Less): Changes in refundable container expense (recovery)	(33,986)	(17,352)	5,165
Adjusted EBITDA	**423,419**	**616,908**	**762,819**

PERFORMANCE AND RESULTS OF OPERATIONS

Three Months Ended June 30, 2016 ("Q4 2016F")

The Company had a net loss and comprehensive loss of $392,135 for Q4 2016F compared to net income and comprehensive income of $1,254,479 for the three months ended June 30, 2015 ("Q4 2015F"). The decrease in net income and comprehensive income is primarily due to the increase in deferred tax expense of $220,000 compared to deferred tax recovery of $1,963,000 in Q4 2015F.

Net revenue for Q4 2016F was $2,065,605 up by $113,623 or 6% compared to $1,951,982 for Q4 2015F mainly due to higher sales revenue.

The gross margin for Q4 2016F decreased by $215,810 or 20% to $879,215 compared to $1,095,025 for Q4 2015F. The gross margin percentage of Q4 2016F was down by 13% to 43% compared to 56% for Q4 2015F mainly due to previous year's one time reclassification of freight expenses from cost of sales to selling, general and administration expenses.

Selling, general and administration expenses for Q4 2016F were $1,025,047 down by $550,230 or 35% compared to $1,575,277 for Q4 2015F. This is primarily due to the following reasons:

i. Advertising and promotion decreased by $231,470 to $269,298 from $500,768 mainly due to the reclassification of freight expenses from cost of sales.

ii. Professional fees decreased by $126,064 to $108,196 from $234,260 mainly due to lower legal fees.

iii. Share-based compensation decreased by $118,918 to a recovery of $5,225 from an expense of $113,693.

Offset by the following:

i. Rent and utilities expenses increased by $32,739 to $142,366 from $109,627 mainly due to annual rate changes and increased in leased space for the Surrey location.

Other income and expenses for Q4 2016F decreased by $275,750 to $14,373 from $290,123 in Q4 2015F mainly due to lower interest expense on long-term debts and previous year's write off of long term investment of $100,000 and write off of uncollectable input tax credit of $87,428.

Year Ended June 30, 2016 ("2016F YTD")

The Company had a net loss and comprehensive loss of $319,669 for 2016F YTD compared to the net income and comprehensive income of $1,602,178 for the year ended June 30, 2015 ("2015F YTD). The decrease in net income and comprehensive income is primarily due to deferred tax expense of $220,000 compared to previous year's deferred tax recovery of $1,963,000.

Net revenue for 2016F YTD was $8,101,838 up $163,977 or 2% compared to $7,937,861 for 2015F YTD. The increase is mainly due to increased pricing and volumes, new products and optimizing product mix.

The gross margin for 2016F YTD decreased by $81,616 or 2% to $4,255,433 compared to $4,337,049 for 2015F YTD. The gross margin percentage of 2016F YTD was down 2% to 53% compared to 55% for 2015F YTD. The increase is mainly due to higher cost of repairs and maintenance on properties and equipment.

Selling, general and administration expenses for 2016F YTD were $4,188,562 down $57,588 or 1% compared to $4,246,150 for 2015F YTD. This is primarily due to the following reasons:

i. Share-based compensation decreased by $172,823 to $54,726 from $227,550.

ii. Management fees decreased by $41,681 to $112,500 from $154,181 due to lower bonus payment.

iii. Labour cost decreased by $65,211 to $1,216,907 from $1,282,118 mainly due to lower sales commission and head count.

iv. Bank charges fees decreased by $37,592 to $96,841 from $134,433 mainly due to previous year's write off of retainer fee for bank loan arrangement.

Offset by the following:

i. Professional fees increased by $200,515 to $610,164 from $409,649 mainly due to higher legal and consulting fees for corporate strategic review process throughout the year and to defend Premier's takeover bid in July 2015.

ii. Rent and utilities expenses increased by $61,536 to $538,945 from $477,409 mainly due to annual rate changes and increased in leased space for the Surrey location.

Other income and expenses for 2016F YTD decreased by $273,560 to $105,691 from $379,251 in 2015F YTD mainly due to lower interest expense on long-term debts and previous year's write off of long term investment of $100,000 and write off of uncollectable input tax credit of $87,428.

Summary of Quarterly Results

The Company's selected quarterly results for the eight most recently completed financial quarters are as follows:

Fiscal Year Quarter	**2016F Q4**	**2016F Q3**	**2016F Q2**	**2016F Q1**	**2015F Q4**	**2015F Q3**	**2015F Q2**	**2015F Q1**
(in $000, except per share amounts)	$	$	$	$	$	$	$	$
Net revenues	2,066	1,810	2,156	2,070	1,952	1,992	1,991	2,003
SG&A[(1)]	1.025	908	1,103	1,153	1,499	809	889	1,049
EBITDA[(2)]	(64)	192	187	88	(330)	409	302	26
Net income (loss)	(392)	83	39	(50)	1,254	299	180	(131)
Net earnings (loss) per share	(0.00)	0.00	0.00	(0.00)	0.01	0.00	0.00	(0.00)

(1) SG&A represents Selling, General and Administrative expenses.

(2) EBITDA represents earnings before interest, income taxes, depreciation and amortization. EBITDA is a non-IFRS earnings measure, therefore it does not have any standardized meaning prescribed by International Financial Reporting Standards and may not be similar to measures presented by other companies. Management uses this measurement to evaluate the operating results of the Company.

The Company has historically experienced a seasonal pattern in its operating results, with the second and third quarters historically exhibiting lower revenues. Net revenue for Q4 2016F were $2,065,605 up by $255,745 compared to $1,809,860 for Q3 2016F. Net loss for Q4 2016F was $392,135 compared to net income of $83,499 for Q3 2016F. The increase in net loss is mainly attributable to lower gross margin, and deferred tax expense of $220,000. The results in any one quarter are not indicative of results in any other quarter, or for the year as a whole.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

At June 30, 2016, the Company had a positive working capital of $1,063,879. The Company has $349,575 of cash and $107,006 of restricted term deposits securing up to $100,000 of bank indebtedness. Current liabilities include $1,103,190 of accounts payable and accrued liabilities and $135,960 of long-term debt (Note 9 of the consolidated financial statements).

The Company has an operating line of credit, three operating leases and three term loans. As at June 30, 2016 and the date of this MD&A, the Company is in compliance with all of the covenants.

The Company will need additional capital to fund its planned discretionary capital expenditures for the next twelve months. There is no guarantee that the Company will be able to raise additional equity or debt financing on favorable terms if at all or generate cash flow from operations in the future.

Cash Flow

Year Ended June 30, 2016 ("2016F YTD")

Cash provided in operating activities in 2016F YTD was $221,074 compared to $567,306 in 2015F YTD. The decrease in cash provided of $346,232 was primarily due to the deferred income tax expense of $220,000 offset by increase in prepaid expenses and deposits of $85,064.

Cash used in 2016F YTD for investing activities was $473,697 mainly for the purchases of property and equipment of $589,839 offset by equipment purchased cash grants from the government of $131,789 (Note 8 of the consolidated financial statements).

During the year, the Company received proceeds of $1,038,000 in long-term debts, repaid $849,785 in long-term debts and $14,329 in finance lease obligations compared to repayment of $100,000 in bridge loan, $36,966 in bank indebtedness, $364,973 in long-term debt and $39,374 in finance lease obligations in 2015F YTD.

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. 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. Management considers its long-term debt, finance lease obligations and shareholders' equity as capital (Note 18 of the consolidated financial statements).

Outstanding Share Data

As at June 30, 2016, the Company had 87,083,788 common shares issued and outstanding. In addition, the Company had the following outstanding share data at the date of this MD&A:

Outstanding Share Data	Number of Common Shares	Exercise Price per Common Share	Expiry Dates
Issued and outstanding as at June 30, 2016	87,083,788	N/A	N/A
Stock options	50,000	$0.10	March 9, 2017
Stock options	4,350,000	$0.07	July 9, 2019
Fully Diluted as of the date of this MD&A	91,483,788	N/A	N/A

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Financing

(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 year ended June 30, 2016, the Company recorded interest expense of $315 (2015 - $3,737), of which $40 (2015 - $1,314) 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) As at June 30, 2015, the loan, with a notional principal amount of $965,000 had 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 was guaranteed by Fort Garry Brewing Company Ltd. As further security for the loan, the Company and its Canadian subsidiaries granted 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 was able to repay the loan at any time without penalty by paying the loan amount outstanding together with accrued interest and prorated bonus. During the year ended June 30, 2016, the Company recorded interest expense of $7,130 (2015 - $47,244), of which $1,030 (2015 - $7,522) 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. On October 2, 2015, the balance of the loan and interest were repaid in full.

(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, 2016 was $12,654 (2015 - $47,737) and $nil is owing for interest at June 30, 2016 (2015 - $27,654). The Company also recorded interest expense of $70,347 (2015 - $109,205) related to the amortization of finance fees of this loan of which $34,462 (2015 - $31,886) related to the accretion of the discounted value of the loan. The principal amount of the loan was due on December 31, 2015. 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 11(d)). 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. During the year ended June 30, 2016, the Company recorded interest expense of $32,923 which has been recorded as interest on long-term debt in the consolidated statement of comprehensive loss. The loan is secured by General Security Agreements covering assets of Russell Breweries Inc., Fort Garry Brewing Company Ltd. and a Guarantee of Russell USA LLC for the full amount of the loan.

(e) On February 3, 2016, the Company entered into a loan agreement with Business Development Bank of Canada ("BDC") for $200,000. The BDC Loan, bearing interest at a base rate of 5.15% plus a variance of 1% maturing July 15, 2025. During the year ended June 30, 2016, the Company recorded interest expense of $4,370 which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income. The loan is secured by General Security Agreements covering assets of Russell Breweries Inc., Fort Garry Brewing Company Ltd. and a Guarantee of Russell USA LLC for the full amount of the loan.

(f) On February 3, 2016, the Company entered into a loan agreement with Business Development Bank of Canada ("BDC") for $50,000. The BDC Loan, bearing interest at a base rate of 4.70% plus a variance of 3% maturing January 15, 2021. During the year ended June 30, 2016, the Company recorded interest expense of $1,340 which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income. The loan is secured by General Security Agreements covering assets of Russell Breweries Inc., Fort Garry Brewing Company Ltd. and a Guarantee of Russell USA LLC for the full amount of the loan.

Contractual Obligations, Commitments

The Company utilizes operating leases to finance manufacturing equipment, vehicles and office equipment. The Company also leases the building in Surrey, British Columbia and Winnipeg, Manitoba where it has its offices, breweries, warehousing and packaging operations. By entering into operating leases, the Company is able to update its equipment more frequently, not utilize its cash to invest in these assets and in so doing lower its overall average cost compared with purchasing the assets. All leases are evaluated at inception for appropriate accounting treatment.

A summary of the Company's contractual obligations for the next five years are as follows (Note 16(c) (ii) of the consolidated financial statements):

	Less Than 1 Year $	Years 2 and 3 $	Years 4 and 5 $	More Than 5 Years $	Total $
Accounts payable and accrued liabilities	**1,103,190**	–	–	–	1,103,190
Due to related parties and long-term debt	**147,143**	271,920	267,770	278,250	965,083
	1,250,333	271,920	267,770	278,250	2,068,273

RELATED PARTIES

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:

	2016	2015
Short-term benefits:		
Salaries and management fees [Note 15(a)]	**$ 264,871**	$ 317,348
Directors fees [Note 15(b)]	**47,586**	36,000
Legal fees [Note 15(d)]	**–**	12,745
Share-based payments [Note 15(c)]	**66,568**	227,550
	$ 379,025	$ 593,643

(a) During the year ended June 30, 2016, the Company incurred management and miscellaneous fees to a company controlled by the CEO in the amount of $127,000 (2015 – $182,654) and salaries and benefits to the CFO in the amount of $137,871 (2015 – $134,694). As at June 30, 2016, the Company owed $11,183 to a company controlled by the CEO (2015 – $10,561), which is non-interest bearing, unsecured and due on demand.

(b) During the year ended June 30, 2016, the Company incurred director fees of $47,586 (2015 – $36,000). As at June 30, 2016, the Company owed $Nil to the independent directors (2015 – $Nil), which were non-interest bearing, unsecured and due on demand.

(c) During the year ended June 30, 2016, the Company granted Nil (2015 – 4,550,000) stock options to directors and key employees and recorded share-based compensation in the amount of $66,568 (2015 – $227,550) (Note 11 (c)).

(d) During the year ended June 30, 2016, the Company accrued legal fees of $Nil (2015 - $12,745) to a company controlled by a former director of the Company. As at June 30, 2016, the Company had a balance of $Nil owing to a company controlled by a former director of the Company (2015 - $57,000).

(e) 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.

(f) As at June 30, 2015, the Company has accrued $74,500 (2015 - $72,776) 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.

PROPOSED TRANSACTIONS

(a) On October 5, 2016, the Company entered into an agreement to sell the non-current assets and working capital of its Fort Garry Brewing Company business, utilized for the production of beer in Manitoba, for a purchase price of $7,715,545 ("Fort Garry Sale Agreement"), subject to a required working capital of $857,328. The purchase price will be adjusted on the closing date on a dollar for dollar basis for any variance in the working capital from the required amount. The closing date of the agreement is December 15, 2016 or any other date as agreed by the parties. The purchase price is to be paid as follows:

(i) $6,165,545 in cash;
(ii) The surrender of a $200,000 deposit paid in trust on execution of Fort Garry Sale Agreement;
(iii) The deposit with Computershare Trust Company of Canada of $1,350,000.

The Company is subject to non-solicitation provisions. The Fort Garry Sale Agreement provides that the Company's Board may, under certain circumstances, terminate the agreement in favour of an unsolicited superior proposal. If the proposal is terminated, the Company will be subject to payment of a termination fee of $750,000 to the purchaser, and the purchaser is granted a right to match a superior proposal. The sale is subject to the approval by the Company's shareholders.

(b) On October 5, 2016, the Company entered into an agreement to sell the non-current assets and working capital of its Russell Brewing Company business, utilized for the production of beer in British Columbia, for a purchase price of $1,000,000 ("Russell Sale Agreement"), subject to a required working capital of $548,123. The purchase price will be adjusted on the closing date on a dollar for dollar basis for any variance in the working capital from the required amount. The closing date of the agreement is December 31, 2016 or any other date as agreed by the parties. The purchase price is to be paid as follows:

(i) on closing, payment of:
- $180,000 in cash; and
- the surrender of a $180,000 deposit paid in trust on the execution of the sale agreement; and

(ii) the remainder of the purchase price will be payable by the purchaser in instalments as follows:
- approximately 120 days from the closing date, payment of $80,000, subject to any working capital adjustments; and
- at the election of the purchaser, either:
    i. on the date that is 6 months from the closing of the sale, the deposit with the Escrow Agent of $200,000, to cover any indemnification claims that may be made by the purchaser for a period of one year following closing, and payment of the remainder of the purchase price, being $1,160,000, plus interest of 7.5% per annum, compounded annually, on such amounts; or
    ii. on the date that is 6 months from the closing of the sale, payment of $680,000 and, on the date that is 12 months from the closing of the sale, payment of $200,000, subject to any indemnification claims that may be made by the 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 purchaser has agreed to execute and deliver in favour of the Company, a first ranking general security agreement covering all of the Russell Brewing Company assets.

The Company is subject to non-solicitation provisions. The Russell Sale Agreement provides that the Company's Board may, under certain circumstances, terminate the Agreement in favour of an unsolicited superior proposal. In case of the termination of the Agreement, the Company will be subject to payment of a termination fee of $160,000 to the purchaser, and the purchaser will be granted a right to match a superior proposal. The sale is subject to the approval by the Company's shareholders.

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, 2015 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, 2016:

- Amendments to IAS 1 – Presentation of Financial Statements
- Amendments to IAS 16 – Property, Plant and Equipment

(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, 2016</u>

- *IFRS 10 – Consolidated Financial Statements.* The amendments to IFRS 10 require a full gain or loss to be recognized when a transaction involves a business (whether it is housed in a subsidiary or not), while a partial gain or loss would be recognized when a transaction involves assets that do not constitute a business, even if the assets are housed in a subsidiary. The amendments are effective for transactions occurring in annual periods beginning on or after January 1, 2016.

<u>New accounting standards effective January 1, 2018</u>

- 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.

- 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.

- *IFRS 7 – Financial instruments: Disclosure.* IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. The standard is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018.

<u>New accounting standards effective January 1, 2019</u>

- *IFRS 16 – Leases.* IFRS 16 was issued on January 13, 2016, and will be effective for accounting periods beginning on or after January 1, 2019. Early adoption is permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting.

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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the reporting period. Significant areas requiring the use of management estimates may include recovery of accounts receivable, inventory valuation, the estimated useful life of long-lived assets, the recoverability of amounts recorded for long-lived assets, estimates used in impairment analysis of long-lived assets, contingent liabilities, valuation of deferred tax assets and liabilities and estimates used in calculating share-based compensation. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. Actual results could differ from management's best estimates as additional information becomes available.

Property and Equipment

The accounting for property and equipment requires that management make estimates involving the life of the assets, the selection of an appropriate method of depreciation and determining whether an impairment of assets exists.

The Company reviews the residual values, useful lives of depreciable assets and depreciation method on an annual basis and where revisions were made; the Company applies such changes in estimates on a prospective basis.

The net carrying amounts of property and equipment are reviewed for impairment either individually or at the cash generating unit level at the end of each reporting period. 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 cost to sell and its value-in-use. To the extent that an asset's carrying amount exceeds its recoverable amount, the excess is fully provided for in the period in which it is determined to be impaired. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

There is uncertainty in these estimates as the related recoverable amounts are projected for future years based on underlying assumptions such as volume growth, inflation factors and industry trends which may not materialize. Management uses its best estimates to forecast these amounts, but the actual amounts may vary from estimates. Should future results differ from management's estimates, an impairment of these assets and a related write-down may result. As at the date of this report, the Company believes that its estimates are materially correct.

Intangible Assets

Indefinite life intangible assets consist of brands and trademarks. These assets are recorded at cost and are not amortized but instead are reviewed for impairment at the end of each reporting period. 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 cost to sell and its value-in-use. There is uncertainty in these estimates as the related recoverable amounts are projected for future years based on underlying assumptions such as volume growth, inflation factors and industry trends which may not materialize. Management uses its best estimates to forecast these amounts, but the actual amounts may vary from estimates. Should future results differ from management's estimates, an impairment of these assets and a related write-down may result. As at the date of this report, the Company believes that its estimates are materially correct.

RISKS AND UNCERTAINTIES

Competition

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

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

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

Government Regulation

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

Commodity price risk

The Company is exposed to commodity price risk with respect to agricultural and other raw materials used to produce the Company's products, including malted barley, hops, corn syrup, water, and packaging materials (including kegs, bottles, aluminum cans, cardboard and other paper products), where fluctuations in the market price or availability of these items could impact the Company's cash flow and production. The supply and price can be affected by a number of factors beyond management's control, including market demand, global events, frosts, droughts and other weather conditions, economic factors affecting growth decisions, plant diseases, and theft. To the extent any of the foregoing factors affect the prices of ingredients or packaging, the Company's results of operations could be materially and adversely impacted. To minimize the impact of this risk, the Company enters into contracts which secure supply and set pricing to manage the exposure to availability and pricing.

Dependence on Key Personnel

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

Operating Hazards

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

Proprietary Rights

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

Seasonal Nature of Business

The alcoholic beverage industry in Canada is seasonal in nature. Accordingly, the Company has historically experienced a seasonal pattern in its operating results, with the second and third quarters historically exhibiting lower revenues. Therefore, the results in any one quarter are not indicative of results in any other quarter, or for the year as a whole.

Trends in Consumer Preferences and Attitudes

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

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

The Company considers its trademarks, particularly certain brand names and product packaging, advertising and promotion design and artwork, to be of considerable value and critical to its business. The Company relies on trademark laws and other arrangements to protect its proprietary rights. There can be no assurance that the steps taken by the Company to protect its intellectual property rights will preclude competitors from developing similar brand names or promotional materials. While the Company believes that its proprietary rights do not infringe upon those third parties, it possesses no assurances of such a situation. The Company has applied for registration of the following trademarks: Russell Brewing Company, A Wee Angry Scotch Ale, Blood Alley Extra Special Bitter, Eastern Promises Czech Pilsner, IP'eh India Pale Ale, Fort Garry Brewing, Fort Garry Dark Ale, Fort Garry Pale Ale, Stone Cold draft, Fort Garry, Two Rivers Brewing Co. Ltd, Frontier, Rocky Mountain Pilsner and Mountains, Russell and The Beer Other Beers Want To Be.

Trade Regulations

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

Availability of financing

In the past, the Company relied on the issuance of equity and debt securities to meet its capital requirements. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional financing is raised by the Company through the issuance of securities from treasury, control of the Control may change and security holders may suffer significant dilution. The Company also requires continued support from its lenders to maintain its financial condition. The loss of this support could limit expansion opportunities and put strain on the Company's continuing operations.

Credit Risk

The Company grants credit to its customers in the normal course of business. However as the major portion of the accounts receivable are held by the British Columbia Liquor Distribution Board (BCLDB), the Manitoba Liquor & Lotteries (MBLL) and Alberta Gaming and Liquor Commission (AGLC), management believes exposure to credit risk is limited.

FINANCIAL INSTRUMENTS

(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 value of long-term debt at June 30, 2016 is considered to be a reasonable estimate 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, 2016 consolidated 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 June 30, 2016 $**
Assets:				
Cash and cash equivalents	349,575	–	–	349,575
Restricted term deposits	107,006	–	–	107,006