RUSSELL BREWERIES INC.
Management's Discussion and Analysis
For the three months ended September 30, 2016

This Management's Discussion and Analysis ("MD&A") of Russell Breweries Inc. ("the Company) dated November 25, 2016 provides an analysis of its results of operation and financial condition for the three months ended September 30, 2016. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements, and accompanying notes for the three months ended September 30, 2016 and 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 unaudited condensed consolidated interim 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 November 25, 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 June 30, 2015, the Company announced that, in response to the unsolicited offer by Premier Diversified Holdings Inc. (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 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	**Three Months Ended September 30, 2016**	**Three Months Ended September 30, 2015**	**Three Months Ended September 30, 2014**
	$	$	$
Statement of Comprehensive Income Data			
Net Revenues (after excise tax and provincial mark-up)	2,228,582	2,070,393	2,002,642
Earnings before interest and other income, taxes, depreciation and amortization (EBITDA) (1)	423,872	88,203	25,748
Adjusted EBITDA(2)	424,735	118,614	76,034
Total income (loss) from continuing operations	311,935	(49,745)	(131,022)
Operating income (loss) per share	0.00	(0.00)	(0.00)
Net income (loss) and comprehensive income	311,935	(49,745)	(131,022)
Basic and diluted earnings per share	0.00	(0.00)	(0.00)
Statement of Financial Position Data			
Total assets	8,175,410	8,346,003	6,716,916
Total long term financial liabilities	783,950	–	533,157
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	**Three Months Ended September 30, 2016**	**Three Months Ended September 30, 2015**	**Three Months Ended September 30, 2014**
	$	$	$
EBITDA	423,872	88,203	25,748
Add: Stock-based compensation expense	1,561	28,038	43,387
Add (Less): Changes in refundable container expense (recovery)	(698)	2,373	6,899
Adjusted EBITDA	**424,735**	**118,614**	**76,034**

PERFORMANCE AND RESULTS OF OPERATIONS

Three Months Ended September 30, 2016 ("Q1 2017F" and "2017F YTD)

The Company had a net income and comprehensive income of $311,935 for Q1 2017F compared to net loss and comprehensive loss of $49,745 for the three months ended September 30, 2015 ("Q1 2016F"). The increase in net income and comprehensive income is primarily due to the increase in gross margin of $59,056 and the decrease in selling, general and administrative expenses of $260,799.

Net revenue for Q1 2017F were $2,228,582 up $158,189 or 8% compared to $2,070,393 for Q1 2016F mainly due to higher sales.

The gross margin for Q1 2017F increased by $59,056 or 5% to $1,226,921 compared to $1,167,865 for Q1 2016F. The gross margin percentage of Q1 2017F was down 1% to 55% compared to 56% for Q1 2016F. The decrease in gross margin percentage is mainly due to higher cost of sales.

Selling, general and administration expenses for Q1 2017F were at $892,095 down $260,799 or 23% compared to $1,152,894 for Q1 2016F. This is primarily due to the following reasons:

i. Professional fees decreased by $305,659 to a recovery of $15,308 from an expense of $290,351 mainly due to previous year's higher legal and consulting fees to defend Premier's takeover bid in July 2015.

ii. Share-based compensation decreased by $26,477 to $1,561 from $28,038.

Offset by the following reasons:

i. Labour increased by $47,043 to $298,409 from $251,366 mainly due to higher sales commission for increased revenue.

ii. Rent and utilities increased by $34,249 to $154,659 from $120,410 due to changes in annual rate.

Other income and expenses for Q1 2017F decreased by $33,583 to $8,494 from $42,077 in Q1 2016F mainly due to lower interest expense on long-term debts.

Summary of Quarterly Results

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

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Fiscal Year Quarter	2017F Q1	2016F Q4	2016F Q3	2016F Q2	2016F Q1	2015F Q4	2015F Q3	2015F Q2
(in $000, except per share amounts)	$	$	$	$	$	$	$	$
Net revenues	2,229	2,066	1,810	2,156	2,070	1,952	1,992	1,991
SG&A(1)	892	1.025	908	1,103	1,153	1,499	809	889
EBITDA(2)	424	(64)	192	187	88	(330)	409	302
Net income (loss)	312	(392)	83	39	(50)	1,254	299	180
Net earnings (loss) per share	0.00	(0.00)	0.00	0.00	(0.00)	0.01	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 Q1 2017F were $2,228,582 up by $162,977 compared to $2,065,605 for Q4 2016F. Net income for Q1 2017F was $311,935 compared to net loss of $392,135 for Q4 2016F. The increase in net income is mainly attributable to higher sales revenue and lower selling, general and administrative expenses. 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 September 30, 2016, the Company had a positive working capital of $1,405,076. The Company has $720,976 of cash and $107,006 of restricted term deposits securing up to $100,000 of bank indebtedness. Current liabilities include $987,851 of accounts payable and accrued liabilities, $11,183 of due to related parties and $135,960 of long-term debt (Note 8 of the consolidated financial statements).

The Company has an operating line of credit, three operating leases and three term loans. As at September 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

Three Months Ended September 30, 2016 ("2017F YTD")

Cash provided by operating activities in 2017F YTD was $440,893 compared to $589,078 in 2016F YTD. The decrease in cash provided of $148,185 was primarily due to the decrease in net cash from accounts payable and accrued liabilities of $115,339 and from accounts receivable of $153,414.

Cash used in 2017F YTD for investing activities was $35,502 mainly for the purchases of property and equipment compared to $46,383 in 2016F YTD.

During the period, the Company repaid $33,990 in long-term debts and $nil in finance lease obligations compared to repayment of $81,987 in long-term debts and $6,494 in finance lease obligations in 2016F 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, 2016 - $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 16 of the consolidated financial statements).

Outstanding Share Data

As at September 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 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 September 30, 2016, the Company recorded interest expense of $10,955 (2015 - $nil) which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income.

(b) 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 April 15, 2025 secured by the assets of Fort Garry Brewing Company and Russell Brewing Company Ltd. During the period ended September 30, 2016, the Company recorded interest expense of $2,921 (2015 - $nil) which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income.

(c) 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 April 15, 2025 secured by the assets of Fort Garry Brewing Company and Russell Brewing Company Ltd. During the year ended September 30, 2016, the Company recorded interest expense of $868 (2015 - $nil) which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income.

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 14(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	**987,851**	–	–	–	987,851
Due to related parties and long-term debt	**147,143**	237,930	267,770	278,250	931,093
	1,134,994	237,930	267,770	278,250	1,918,944

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:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Short-term benefits:		
Salaries and management fees [Note (a)]	$ 72,685	$ 58,050
Directors fees [Note (b)]	13,603	9,000
Share-based payments [Notes (c)]	1,561	28,038
	$ 87,849	$ 95,088

(a) During the period ended September 30, 2016, the Company incurred management fees to a company controlled by the CEO in the amount of $32,125 (2015 - $31,187) and salaries and benefits to the CFO in the amount of $40,560 (2015 – $26,863). As at September 30, 2016, the Company owed $11,183 to a company controlled by the CEO (June 30, 2016 – $11,183), which is non-interest bearing, unsecured and due on demand.

(b) During the period ended September 30, 2016, the Company incurred director fees of $13,603 (2015 - $9,000). As at September 30, 2016, the Company owed $Nil to the independent directors (2016 – $Nil), which were non-interest bearing, unsecured and due on demand.

(c) During the period ended September 30, 2016, the Company granted nil (2015 – nil) stock options to directors and key employees and recorded share-based compensation in the amount of $1,561 (2015 - $28,038) (Note 10 (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.

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.

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 September 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 September 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 September 30, 2016 $**
Assets:				
Cash and cash equivalents	720,976	–	–	720,976
Restricted term deposits	107,006	–	–	107,006