RUSSELL BREWERIES INC.
Management's Discussion and Analysis
For the six months ended December 31, 2016

This Management's Discussion and Analysis ("MD&A") of Russell Breweries Inc. ("the Company) dated February 28, 2017 provides an analysis of its results of operation and financial condition for the six months ended December 31, 2016. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements, and accompanying notes for the six months ended December 31, 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.

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 February 28, 2017.

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 produced premium quality beers for pubs, restaurants and liquor stores. The Company acquired Fort Garry Brewing Company Ltd. ("Fort Garry") on October 22, 2007. 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 produced 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. 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 and Fort Garry Brewing Company.

On December 2, 2016, the Company completed the Fort Garry Brewing Company asset sale transaction ("Fort Garry Sale").

On December 16, 2016, the Company completed the Russell Brewing Company asset sale transaction ("Russell Sale"). The Company ceased its normal operation of beer production and sales following completion of the Fort Garry Sale and Russell Sale.

Before completion of the Fort Garry Sale and the Russell Sale and ceasing normal operations, 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	Six Months Ended December 31, 2016	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
	$	$	$
Statement of Comprehensive Loss Data			
Net Revenues (after excise tax and provincial mark-up)	3,463,310	4,226,373	3,993,939
Earnings before interest and other income, taxes, depreciation and amortization (EBITDA) (1)	(263,651)	274,709	327,700
Adjusted EBITDA(2)	(271,518)	323,751	403,470
Total income (loss) from continuing operations	2,869,300	(11,033)	48,702
Operating income (loss) per share	0.03	(0.00)	0.00
Net income (loss) and comprehensive income (loss)	2,869,300	(11,033)	48,702
Basic and diluted earnings (loss) per share	0.03	(0.00)	0.00
Statement of Financial Position Data			
Total assets	9,267,782	7,990,700	7,063,321
Total long term financial liabilities	Nil	665,000	470,165
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	Six Months Ended December 31, 2016	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014
	$	$	$
EBITDA	(263,651)	274,709	327,700
Add (Less): Stock-based compensation expense/expense reversal	(8,183)	47,479	78,679
Add (Less): Changes in refundable container expense (recovery)	316	1,563	(2,909)
Adjusted EBITDA	**(271,518)**	**323,751**	**403,470**

PERFORMANCE AND RESULTS OF OPERATIONS

Three Months Ended December 31, 2016 ("Q2 2017F")

The Company had a net income and comprehensive income of $2,557,365 for Q2 2017F compared to net income and comprehensive income of $38,712 for the three months ended December 31, 2015 ("Q2 2016F"). The increase in net income and comprehensive income is primarily due to the $3,350,803 gain realized with the Fort Garry and Russell asset sale that completed during the period, offset by the decrease in gross margin of $742,557.

Net revenue for Q2 2017F were $1,234,728, down $921,252 or 43% compared to $2,155,980 for Q2 2016F due to lower sales. The decrease in net revenue was primarily the result of a shortened quarter with less selling days before the Fort Garry and Russell Sale transactions were completed, increased competition, and the impact of asset sale transaction closing activities to normal operations.

Gross margin for Q2 2017F decreased by $745,043, or 62% compared to $1,198,378 for Q2 2016F. The gross margin percentage of Q2 2017F was down 19% to 37% compared to 56% for Q2 2016F. The decrease in gross margin percentage is mainly due to higher raw material and production labour costs as a percentage of revenue, as well as higher repair and maintenance costs.

Selling, general and administration expenses for Q2 2017F were at $1,205,110, up $102,523 or 9% compared to $1,102,587 for Q2 2016F. This is primarily due to the following reasons:

i. Professional fees increased by $185,560 mainly due to costs related to closing of the Fort Garry Sale and Russell Sale.

Offset by the following:

i. Labour costs decreased by $30,496 to $306,154 from $336,650 due to less operating days during the period with the asset sale.

ii. Share-based compensation decreased by $29,184 to $(9,744) from $19,440 due to a reversal of stock option expenses.

Other income for Q2 2017F increased by $3,365,041 to $3,321,102 from expense of $43,939 in Q2 2016F mainly due to gain realized with the Fort Garry Sale and Russell Sale.

Six Months Ended December 31, 2016 ("Q2 2017F" and "2017F YTD")

The Company had a net income and comprehensive income of $2,869,300 for 2017F YTD compared to net loss and comprehensive loss of $11,033 for the six months ended December 31, 2015 ("2016F YTD"). The increase in net income and comprehensive income is primarily due to the $3,350,803 gain realized with the Fort Garry and Russell asset sale that completed during the period, offset by the decrease in gross margin of $683,501.

Net revenue for 2017F YTD were $3,463,310, down $763,063 or 18% compared to $4,226,373 for 2016F YTD due to lower sales. The decrease in sales revenue is primarily a result of shortened quarter with less selling days before the asset sale transactions were completed in Q2 2017F, as well as increased competition and impact of asset sale transaction closing activities to normal operations.

Gross margin for 2017F YTD decreased by $683,501, or 29% compared to $2,366,243 for 2016F YTD. The gross margin percentage of 2017F YTD was down 7% to 49% compared to 56% for 2016F YTD. The decrease in gross margin percentage is mainly due to higher raw material and production labour costs as a percentage of revenue, as well as higher repair and maintenance costs.

Selling, general and administration expenses for 2017F YTD were at $2,097,205, down $158,276 or 7% compared to $2,255,481 for 2016F YTD. This is primarily due to the following reasons:

i. Professional fees decreased by $101,991 mainly due to previous year's higher legal fees offset by closing costs related to the Fort Garry Sale and Russell Sale during the period.

ii. Share-based compensation decreased by $55,661 to $(8,183) from $47,478, including a reversal of $9,774 stock option expenses.

Other income for 2017F YTD increased by $3,398,624 to $3,312,608 versus expense of $86,016 in 2016F YTD, mainly due to the gain realized with the Fort Garry Sale and the Russell Sale.

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 Q2	2017F Q1	2016F Q4	2016F Q3	2016F Q2	2016F Q1	2015F Q4	2015F Q3
(in $000, except per share amounts)	$	$	$	$	$	$	$	$
Net revenues	1,235	2,229	2,066	1,810	2,156	2,070	1,952	1,992
SG&A[(1)]	1,205	892	1.025	908	1,103	1,153	1,499	809
EBITDA[(2)]	(688)	424	(64)	192	187	88	(330)	409
Net income (loss)	2,557	312	(392)	83	39	(50)	1,254	299
Net earnings (loss) per share	0.03	0.00	(0.00)	0.00	0.00	(0.00)	0.01	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 Q2 2017F were $1,234,728 down by $993,854 compared to $2,228,582 for Q1 2017F. Net income for Q2 2017F was $2,557,365 compared to net income of $311,935 for Q1 2017F. The increase in net income is mainly attributable to the gain realized with the Fort Garry Sale and the Russell Sale. 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 December 31, 2016, the Company had a positive working capital of $7,652,081. The Company has $5,067,284 of cash and $107,006 of restricted term deposits securing up to $100,000 of bank indebtedness. Current liabilities include $456,426 of accounts payable and accrued liabilities, and $7,269 of due to related parties.

The Company has an operating line of credit. As at December 31, 2016 and the date of this MD&A, the Company is in compliance with all of the covenants.

Cash Flow

Six Months Ended December 31, 2016 ("2017F YTD")

Cash used in operating activities in 2017F YTD was $887,192 compared to $20,062 in 2016F YTD. This was primarily due to net cash used by operating activities of $313,592 compared to net cash provided by operating activities of $259,204 in 2016F YTD, and net cash used by changes in operating assets and liabilities of $573,600 compared to net cash used by changes in operating assets and liabilities of $279,266 in 2016F YTD.

Cash provided in 2017F YTD for investing activities was $6,561,287 compared to cash used of $144,154 in 2016F YTD, mainly due to the disposition of assets with the Fort Garry Sale and Russell Sale.

During the period, the Company repaid $953,900 in long-term debts and $nil in finance lease obligations compared to repayment of $745,871 in long-term debts and $14,329 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.

Before closing of Fort Garry and Russell asset sale transactions, the Company managed its capital structure in order to ensure sufficient resources are available to meet operational requirements. After closing of the transactions, capital management goal of the Company is to maximize return of capital on the Common Shares. (Note 16 of the consolidated financial statements).

Outstanding Share Data

As at December 31, 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	4,200,000	$0.07	July 9, 2019
Fully Diluted as of the date of this MD&A	91,333,788	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. On December 2, 2016, the Company repaid the loan on closing of the Fort Garry Sale. During the period ended December 31, 2016, the Company recorded interest expense of $33,306 (2015 -$nil) including a prepayment indemnity of $10,321 (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. On December 2, 2016, the Company repaid the loan on closing of the Fort Garry Sale. During the period ended December 31, 2016, the Company recorded interest expense of $8,796 (2015 - $nil) including a prepayment indemnity of $2,788 (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. On December 2, 2016, the Company repaid the loan on closing of the Fort Garry Sale. During the period ended December 31, 2016, the Company recorded interest expense of $2,343 (2015 - $nil) including a prepayment indemnity of $796 (2015 - $nil), which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income.

Contractual Obligations, Commitments

Before completion of the Fort Garry Sale and the Russell Sale, the Company utilized operating leases to finance manufacturing equipment, vehicles and office equipment. The Company also leased the building in Surrey, British Columbia and Winnipeg, Manitoba where it had its offices, breweries, warehousing and packaging operations. By entering into operating leases, the Company was 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. On completion of the Fort Garry Sale and the Russell Sale, and pursuant to the asset purchase agreements entered into with the purchasers, the Company assigned all leases to the purchasers.

A summary of the Company's contractual obligations for the next five years are as follows (Note 14(c) (iii) 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	**456,426**	–	–	–	456,426
Due to related parties and long-term debt	**7,269**	–	–	–	7,269
	463,695	–	–	–	463,695

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:

	Six Months Ended December 31, 2016	Six Months Ended December 31, 2015
Short-term benefits:		
Salaries and management fees [Note 13(a)]	$ 138,813	$ 137,901
Directors fees [Note 13(b)]	22,000	18,000
Share-based payments [Note 13(c)]	(8,183)	47,479
	$ 152,630	$ 203,380

(a) During the period ended December 31, 2016, the Company incurred management fees to a company controlled by the CEO in the amount of $67,098 (2015 - $75.237) and salaries and benefits to the CFO in the amount of $71,715 (2015 – $62,664). As at December 31, 2016, the Company owed $7,269 to a company controlled by the CEO (2015 – $11,183), which is non-interest bearing, unsecured and due on demand.

(b) During the period ended December 31, 2016, the Company incurred director fees of $22,000 (2015 - $18,000). As at December 31, 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 December 31, 2016, the Company granted $Nil (2015 – $Nil) stock options to directors and key employees and $8,183 was reversed from contributed surplus (2015 - $Nil) (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.

FORT GARRY and RUSSELL SALE TRANSACTIONS

On October 5, 2016, the Company entered into an asset purchase agreement to sell substantially all of the assets utilized in its business of producing beers under the name "Fort Garry Brewing Company", for a purchase price of $7,715,545 ("Fort Garry Sale"). The purchase price is subject to adjustments to a required working capital of $857,328 at closing, and is to be paid as follows on execution of the Fort Garry Sale agreement:

(i) $6,165,545 in cash;
(ii) The surrender of a $200,000 deposit paid in trust; and
(iii) The deposit with Computershare Trust Company of Canada of $1,350,000, for working capital and general liability holdbacks.

On December 2, 2016, the Company completed the Fort Garry Sale, and received $6,165,545 in closing day consideration, and the surrender of the $200,000 in deposit.

On October 5, 2016, the Company also entered into an asset purchase agreement to sell substantially all of the assets utilized in its business of producing beers under the name "Russell Brewing Company", for a purchase price of $1,800,000 ("Russell Sale"). The purchase price is subject to adjustments to a required working capital of $548,123, and is to be paid as follows on execution of the Russell Sale agreement:

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

(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.

On December 16, 2016, the Company completed the Russell Sale, and received $180,000 in closing day consideration, and the surrender of $180,000 in deposit.

As at December 31, 2016, closing day consideration and deposits received, working capital and general liability holdbacks paid in trust with the escrow agent, and the remainder of purchase price payable are summarizes as follows:

	Closing day consideration and deposits	Working Capital Holdback	General Liability Holdback	Remainder of Purchase Price Payable, including Working Capital and General Liability Holdbacks	Total Purchase Price
Fort Garry Sale	$ 6,365,545	$ 350,000	$ 1,000,000	$ -	$ 7,715,545
Russell Sale	$ 360,000	$ -	$ -	$ 1,440,000	$ 1,800,000
					$ 9,515,545

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

Credit Risk

In accordance with terms of the Russell Sale agreement, the Company received $360,000 of the total purchase price of $1,800,000 at closing. The remainder of the purchase price is payable by the purchaser in instalments. As collateral security for the payment of the remaining instalments of the purchase price, the purchaser executed and delivered in favour of the Company, a first ranking general security agreement covering all of the Russell Brewing Company assets. The Company is exposed to credit risk on potential non-performance of the purchaser for payment of the remainder of the purchase price.

Risk of Indemnification Claims

As part of the Fort Garry Sale and the Russell Sale that closed during the period that ended December 31, 2016, the Company provided representations and warranties of the purchased assets to the purchasers. With the Fort Garry Sale, as at December 31, 2016 a general liability holdback amount of $1,000,000 was held by the escrow agent in escrow, for potential indemnification claims against these representations and warranties.

In accordance with the terms of the escrow agreement, on first year anniversary of the closing date, the balance of the general liability holdback amount shall be released to the Company, less the aggregate amount of all losses specified in any then unresolved indemnification claims made by the purchasers.

The company is exposed to the risk of potential indemnification claims, which may have a significant effect on the Company's income (loss) and comprehensive income (loss) for the year.