RUSSELL BREWERIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Russell Breweries Inc.

We have audited the accompanying consolidated financial statements of Russell Breweries Inc. which comprise the consolidated statements of financial position as at June 30, 2017 and 2016, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained based on our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Russell Breweries Inc. as at June 30, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Russell Breweries Inc. is in the process of winding up its operations, and accordingly will not continue as a going concern. These consolidated financial statements being prepared on the liquidation basis of accounting as at June 30, 2017.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
October 30, 2017

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT JUNE 30, 2017 and 2016

(Expressed in Canadian Dollars)

	2017	2016
	$	$
ASSETS		
Current		
Cash and cash equivalents (Note 8)	**1,554,218**	349,575
Amounts receivable (Note 5, 15(c)(i))	**1,839,484**	775,094
Inventories (Note 6)	**–**	1,140,360
Prepaid expenses and deposits	**–**	49,183
	3,393,702	2,314,212
PROPERTY AND EQUIPMENT (Note 9)	**–**	2,501,480
INTANGIBLE ASSETS (Note 7)	**–**	1,955,626
RESTRICTED TERM DEPOSITS (Note 8)	**–**	107,006
DEPOSITS	**–**	94,169
DEFERRED TAX ASSETS (Note 13(a))	**–**	1,045,000
	3,393,702	8,017,493
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 19)	**51,805**	1,103,190
Accrued distributions payable to option holders (Note 12(c))	**60,000**	–
Due to related parties (Note 14(b))	**6,000**	11,183
Current portion of long-term debt (Note 10)	**–**	135,960
	117,805	1,250,333
LONG-TERM DEBT (Note 10)	**–**	817,940
UNEARNED LICENSE FEES (Note 11)	**–**	6,250
	117,805	2,074,523
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 12)	**7,928,818**	12,283,087
SHARE-BASED PAYMENTS RESERVES	**3,854,489**	3,852,924
DEFICIT	**(8,507,410)**	(10,193,041)
	3,275,897	5,942,970
	3,393,702	8,017,493

NATURE OF OPERATIONS (Note 1)
LIQUIDATION BASIS OF ACCOUNTING (Note 2)
COMMITMENTS AND CONTINGENCIES (Note 16)

Approved and authorized for issuance on behalf of the Board of Directors on October 30, 2017:

/s/ Alnesh Mohan
Alnesh Mohan, Director

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

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

(Expressed in Canadian Dollars)

	2017	2016
	$	$
EXPENSES		
Depreciation (Note 9)	**1,394**	3,041
General and administrative (Notes 12(c), 14 and 20)	**635,064**	1,159,466
	636,458	1,162,507
LOSS BEFORE OTHER INCOME (EXPENSE)	**(636,458)**	(1,162,507)
OTHER INCOME (EXPENSE)		
Other income	**168,497**	350,349
Interest on long-term debt (Note 10)	**(33,265)**	(122,523)
	135,232	227,826
LOSS FROM CONTINUING OPERATIONS	**(501,226)**	(934,681)
INCOME FROM DISCONTINUED OPERATIONS (Note 5)	**2,186,857**	615,012
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**1,685,631**	(319,669)
EARNINGS (LOSS) PER SHARE – basic and diluted		
Continuing operations	**(0.01)**	(0.01)
Discontinued operations	**0.03**	0.01
Weighted average number of shares outstanding – basic and diluted	**87,083,788**	87,083,788

The accompanying notes are an integral part of these consolidated financial statements

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

	Share Capital				
	Number of Shares	Amount	Share-based payments reserves	Deficit	Total Shareholders' Equity
		$	$	$	$
Balance, June 30, 2016	**87,083,788**	**12,283,087**	**3,852,924**	**(10,193,041)**	**5,942,970**
Return of capital (Note 12(b))	**–**	**(4,354,269)**	**–**	**–**	**(4,354,269)**
Comprehensive income	**–**	**–**	**–**	**1,685,631**	**1,685,631**
Share-based compensation	**–**	**–**	**1,565**	**–**	**1,565**
Balance, June 30, 2017	**87,083,788**	**7,928,818**	**3,854,489**	**(8,507,410)**	**3,275,897**

	Share Capital				
	Number of Shares	Amount	Share-based payments reserves	Deficit	Total Shareholders' Equity
		$	$	$	$
Balance, June 30, 2015	87,083,788	12,283,087	3,798,198	(9,873,372)	6,207,913
Comprehensive loss	–	–	–	(319,669)	(319,669)
Share-based compensation	–	–	54,726	–	54,726
Balance, June 30, 2016	87,083,788	12,283,087	3,852,924	(10,193,041)	5,942,970

The accompanying notes are an integral part of these consolidated financial statements

RUSSELL BREWERIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

(Expressed in Canadian Dollars)

	2017	2016
	$	$
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss)	**1,685,631**	(319,669)
Adjusted for non-cash items:		
Deferred income tax expense (recovery) (Note 13(c))	**1,045,000**	220,000
Depreciation	**171,176**	396,657
Accretion of long-term debt	**–**	71,417
Accrued interest	**(58,007)**	1,264
Recognition of unearned license fees (Note 11)	**(6,250)**	(25,000)
Share-based compensation (Note 12(c))	**61,565**	54,726
Gain on sale of discontinued operations before income taxes	**(3,344,493)**	–
	(445,378)	399,395
Net changes in non-cash working capital items:		
Amounts receivable	**(285,183)**	83,614
Short-term investments	**108,010**	–
Prepaid expenses and deposits	**67,845**	(85,064)
Inventories	**(14,386)**	(123,124)
Due to and from related parties	**(5,183)**	622
Accounts payable and accrued liabilities	**(730,629)**	(54,369)
	(1,304,904)	221,074
INVESTING ACTIVITIES		
Purchase of property and equipment	**(36,708)**	(589,839)
Proceeds on sale of disposal groups, net of transactions costs	**7,856,700**	–
Cash grants received (Note 9)	**–**	131,789
Acquisition of intangible assets	**(2,276)**	(15,647)
	7,817,716	(473,697)
FINANCING ACTIVITIES		
Return of capital	**(4,354,269)**	–
Proceeds from long-term debt	**–**	1,038,000
Repayment of long-term debt	**(953,900)**	(849,785)
Repayment of finance lease obligations	**–**	(14,329)
	(5,308,169)	173,886
DECREASE IN CASH AND CASH EQUIVALENTS	**1,204,643**	(78,737)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**349,575**	428,312
CASH AND CASH EQUIVALENTS, ENDING OF YEAR	**1,554,218**	349,575

SUPPLEMENTAL CASH FLOW INFORMATION (Note 21)

CASH FLOWS FROM DISCONTINUED OPERATIONS (Note 5)

The accompanying notes are an integral part of these consolidated financial statements

1. NATURE OF OPERATIONS

Russell Breweries Inc. (the "Company") was incorporated under the laws of the Province of British Columbia, Canada on March 23, 2000. The head office and principal address of the Company are located at #100 – 13018, 80th Avenue, Surrey, British Columbia, V3W 3A8.

During the year ended June 30, 2017, the Company completed two separate asset sale transactions to sell substantially all of the assets utilized in its business of producing beers under the name "Fort Garry Brewing Company" ("FGB"), for a price of $7,802,670 (the "Fort Garry Sale"), and substantially all of the assets utilized in its business of producing beers under the name "Russell Brewing Company" ("RBC"), for a price of $1,816,397 (the "Russell Sale"). Subsequent to the disposals, the Company changed the subsidiary's name from Fort Garry Brewing Company Ltd. to 6951946 Manitoba Ltd. (see Note 5).

Before completion of the Fort Garry Sale and the Russell Sale, the Company produced beer primarily for sale to provincial liquor distribution organizations and entities engaged in the food and beverage industries within Canada.

Subsequent to the above disposals, the Company became inactive but continued to be listed under TSX Venture Exchange NEX Board under the symbol "RB.H". On November 28, 2016, the Board of Directors and shareholders approved to wind-up the Company once the final proceeds from the Russell Sale and Fort Garry Sale have been received. As a result, going concern is no longer applicable, and these financial statements have been prepared under the liquidation basis of accounting (see Note 2(c)).

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

a) Statement of Compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

The following companies have been consolidated with Russell Breweries Inc. as at June 30, 2017:

Company Name	Registered	Holding	Functional Currency
Russell Breweries Inc.	British Columbia	Parent Company	Canadian Dollar
6951946 Manitoba Ltd.	Manitoba	100%	Canadian Dollar
Russell USA LLC	United States	100%	United States Dollar

(i) Inter-company balances and transactions, and any unrealized gains arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

As discussed in Note 1, during the year ended June 30, 2017, the Company's FGB and RBC lines of business were sold and the results of operations for the years ended June 30, 2017 and 2016 have been presented as discontinued operations (see Note 5).

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

c) Basis of Measurement

The consolidated financial statements have been prepared on a liquidation basis of accounting for the year ended June 30, 2017 and the historical cost basis for the year ended June 30, 2016.

As a result of the Fort Garry Sale and the Russell Sale, management expects to distribute the remaining net assets to the Company's shareholders and stock option holders and wind-up operations.

Under the liquidation basis of accounting, the financial assets and liabilities reflected on the statement of financial position continue to be recognized under the applicable IFRS. If the carrying value of the financial asset exceeds the net realizable value, an impairment charge is recognized in the statement of comprehensive loss. As at June 30, 2017, the Company assets are comprised primarily of cash and receivables from the two transactions.

Any financial liabilities not expected to be repaid by the Company continue to be recognized at their carrying values until legally discharged. As at June 30, 2017, the Company has sufficient assets to settle all of its outstanding liabilities.

d) Significant Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make judgments in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements are described below. Management also makes assumptions and critical estimates. Critical estimates are those which are most subject to uncertainty and have the most significant risk of resulting in a material change to the carrying amounts of assets and liabilities within the next year. Judgments, assumptions and estimates are based on historical experience, business trends and all available information that management considers relevant at the time of the preparation of the consolidated financial statements. However, future events and their effects cannot be anticipated with certainty and so as confirming events occur, actual results could ultimately differ from assumptions and estimates. Such differences could be material.

The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of these consolidated financial statements.

(i) Significant Judgments

Discontinued Operations

Judgement is required in determining whether the disposals meet the criteria discontinued operations as well as to the classification of income, expense and cash flows as from continuing or discontinued operations.

Deferred Income Taxes

Deferred tax assets require management judgment in order to determine the amounts to be recognized. This includes assessing the timing of the reversal of temporary differences to which deferred income tax rates are applied.

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

d) Significant Accounting Estimates and Judgments (continued)

(i) Significant Judgments (continued)

Impairment Assessments of Long-Lived Assets

Impairment indicators include a significant decline in an asset's market value, significant changes in the technological, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing under-performance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

Definition of Cash-Generating Units

The Company assesses whether there are any indicators of impairment for all non-financial assets at the end of each financial reporting period. If such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Determination of cash-generating units is based on management's best estimate of what constitutes the lowest level at which an asset or group of assets is able to generate cash inflows.

(ii) Significant Estimates

Significant areas requiring the use of management estimates include valuation and collectability of accounts receivable, amount attributable to the stock option holders, valuation of share-based payments, valuation of deferred income tax assets and liabilities and deferred income tax rates. Actual results could differ from the estimates made.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRS and reflect management's consideration of the following significant accounting policies:

(a) Financial Instruments

(i) Cash and Cash Equivalents

Cash and cash equivalents, when applicable, are designated as fair value through profit or loss ("FVTPL") and include cash on account, demand deposits and money market investments with maturities from the date of acquisition of 90 days or less or which are readily convertible to known amounts of cash and are subject to insignificant changes in value.

(ii) Amounts Receivables and Payables

Amounts receivables and payables are non-interest bearing and stated at carrying values, which approximate fair values due to their short terms to maturity. Where necessary, trade receivables include allowances for uncollectible amounts. Amounts receivables are designated as loans and receivables and trade payables are designated as other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial Instruments (continued)

(iii) Restricted Term Deposits

Restricted term deposits are designated as FVTPL and are recorded at fair value with gains and losses recorded in the consolidated statement of comprehensive income.

(iv) Accounts Payable, Accrued Distributions Payable to Option Holders, Long-Term Debt and Due to Related Parties

Accounts payable, accrued distributions payable to option holders, long-term debt and due to related parties are designated as other financial liabilities and initially recorded at total proceeds received less direct issuance costs. Long-term debt and due to related parties are subsequently measured at amortized cost calculated using the effective interest rate method.

(b) Inventories

Raw materials, supplies, finished goods and work-in-progress are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. The cost of finished goods and work-in-progress includes direct materials, labour and overhead costs.

Inventories are written down to net realizable value if that net realizable value is less than the carrying amount of the inventory item at the reporting date. If the net realizable value subsequently increases, a reversal of the loss initially recognized is applied to cost of sales.

(c) Property and Equipment

(i) Depreciation Methods and Rates

Property and equipment is recorded at cost less accumulated depreciation. Depreciation was calculated using the straight-line method over the useful lives of the assets which are estimated as follows:

Computer hardware and software	2-4	Years
Equipment	7-25	Years
Office furniture and fixtures	5	Years
Vehicles	10	Years
Refundable containers	7	Years

Leasehold improvements are depreciated using the straight-line method over the estimated term of the related lease.

(ii) Repairs and Maintenance

Repairs and maintenance costs are charged to expense as incurred, except when these repairs significantly extend the life of an asset or result in an operating improvement. In these instances, the portion of these repairs relating to the betterment is capitalized as part of property and equipment.

(d) Intangible Assets

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets were comprised of brands, trademarks, and website costs. Brands and trademarks held by the Company have an indefinite life and, therefore, were not amortized (see Note 3(e)). Brands and trademarks were measured at cost less any impairment in value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Impairment of Financial and Non-financial Assets

Assets that have an indefinite useful life, such as brands and trademarks, are not subject to amortization and are tested for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to depreciation and amortization, such as property and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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 costs to sell and its value-in-use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash-generating unit level.

Where a cash-generating unit includes intangible assets which are either not available for use or which have an indefinite useful life (and which can only be tested as part of a cash-generating unit), an impairment test is performed at least annually or whenever there is an indication that the carrying amounts of such assets may be impaired.

If the carrying amount of an individual asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recorded in the consolidated statement of comprehensive income to reflect the asset at the recoverable amount. In assessing the value-in-use, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal are discounted to their present value using a pre-tax discount rate which reflects the current market's assessments of the time value of money and asset-specific risks for which the cash flow estimates have not been adjusted. Fair value less costs to sell is determined as the price that would be received to sell the asset or group of assets in an orderly transaction between market participants at the measurement date less incremental costs directly attributed to the disposal of the asset or group of assets.

A reversal of a previously recognized impairment loss is recorded in the consolidated statement of comprehensive income when events or circumstances dictate that the estimates used to determine the recoverable amount have changed since the prior impairment loss was recognized. The carrying amount is increased to the recoverable amount but not beyond the carrying amount net of amortization which would have arisen if the prior impairment loss had not been recognized. After such a reversal, the amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue Recognition

The Company recognizes revenues on product sales at the time the product is shipped. At the time of shipment the following criteria for revenue recognition exist: title has transferred to the provincial liquor boards or retail customers according to the shipping terms, the Company no longer retains managerial involvement with the product associated with ownership, the amount of revenue and costs incurred with respect to the underlying transaction are measured reliably, and collection of the related receivable is probable. Anticipated product returns are provided for at the time of sale. Revenues represent gross revenues less applicable excise taxes and fees levied by provincial liquor boards. Royalty revenue is recorded in accordance with the contract terms once it can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Company. License fee revenue is recorded as other income on a straight-line basis over the life of the related license agreement once it can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Company.

(g) Share-Based Compensation

The Company uses the fair value based method of accounting for share-based compensation for all awards of shares and share options granted.

The Company grants stock options to executive officers, directors, employees and consultants pursuant to a stock option plan described in Note 12(c).

The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the consolidated statement of comprehensive income, unless the fair value cannot be estimated reliably, in which case they are recorded at the fair value of the equity instruments granted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the substantively enacted tax rates which apply when these differences are expected to reverse. Deferred tax assets are recognized for all deductible temporary differences, tax loss carry-forwards and tax credit carry-forwards to the extent that it is probable that taxable profit will be available against which they can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the date of the consolidated statement of financial position.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority and the taxable entities intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

(i) Earnings per Share

Basic earnings/loss per share is computed by dividing net earnings/loss by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of “in the money” stock options, warrants, agent warrants and agent unit options.

(j) Financing Costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Debt issue costs are offset against the related financial instrument on the date of issuance. Costs relating to financial transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations. Costs incurred in connection with the modification of long-term debt are offset against the related debt or recognized as part of the gain or loss on extinguishment of the existing debt.

(k) Leases

Leases are classified as either finance or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a finance lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. At the inception of a finance lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value at the beginning of such lease. Assets recorded under finance leases are amortized on a straight-line basis over the estimated useful lives of the respective assets on commencement of use of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognized as accretion expense.

(m) Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer who is considered to be the Company's 'chief-operating decision maker'. The Chief Executive Officer has determined that the Company operates in a single industry and operating segment which involves the production, distribution and sale of beer in Canada. All property and equipment were situated in Canada.

(n) Government Assistance

Government assistance, including tax credits, related to operating expenses is accounted for as a reduction of related expenses. Government assistance, including the investment tax credits related to the acquisition of property and equipment is accounted for as a cost reduction. It is recognized in net (loss) income using the same methods, periods and rates as for the related property and equipment.

4. ADOPTION OF NEW ACCOUNTING STANDARDS

(a) Newly Adopted Accounting Standards

During the year ended June 30, 2017, the Company did not adopt any new accounting standards and interpretations.

(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, 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.

4. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(b) Future Changes in Accounting Standards (continued)

New accounting standards effective January 1, 2018

- 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.

New accounting standards effective January 1, 2019

- *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 adoption of these standards and interpretations is not expected to have a material impact on the consolidated financial statements of the Company.

5. FORT GARRY SALE AND RUSSELL SALE

During the year ended June 30, 2017, the Company entered into two asset sales agreements with different purchasers of FGB and RBC for total consideration of $7,802,670 and $1,816,397 respectively. The transactions closed on November 30, 2016 for FGB and December 15, 2016 for RBC.

These transactions consist of the only operating segment in the Company and are presented as discontinued operations. The consolidated statements of comprehensive income (loss) have been presented to show the discontinued operations as a single line item, and are therefore separated from continuing operations in the current and comparative periods.

(Expressed in Canadian Dollars)

5. FORT GARRY SALE AND RUSSELL SALE (continued)

(a) The following tables present the net income (loss) from FGB and RBC for the years ended June 30, 2017 and 2016:

June 30, 2017	RBC	FGB	Total
	$	$	$
Revenue (Note 18)	1,499,429	1,908,690	3,408,119
Cost of sales (Note 6)	734,323	1,063,150	1,797,473
Gross profit	765,106	845,540	1,610,646
Expenses			
Depreciation	15,539	945	16,484
Selling, general and administrative	1,053,530	562,185	1,615,715
Other expense (income)	(44,372)	135,460	91,088
	1,024,697	698,590	1,723,287
Income (loss) from operating activities of discontinued operations	(259,591)	146,950	(112,641)
Gain on sale of discontinued operations before tax	22,186	3,322,312	3,344,498
Deferred income tax expense	-	(1,045,000)	(1,045,000)
Gain on sale of discontinued operations	22,186	2,277,312	2,299,498
Net income (loss) from discontinued operations	(237,405)	2,424,262	2,186,857
Cash flow from (used in) disposal assets			
Operating activities	(279,249)	(337,642)	(616,891)
Investing activities	1,140,231	6,715,545	7,855,776
Financing activities	(567,265)	(6,647,007)	(7,214,272)

June 30, 2016	RBC	FGB	Total
	$	$	$
Revenue (Note 18)	3,313,217	4,788,621	8,101,838
Cost of sales (Note 6)	1,761,853	2,084,552	3,846,405
Gross profit	1,551,364	2,704,069	4,255,433
Expenses			
Depreciation	55,539	2,269	57,808
Selling, general and administrative	1,795,072	1,234,026	3,029,098
Other expense	46,961	286,554	333,515
	1,897,572	1,522,849	3,420,421
Income (loss) from operating activities of discontinued operations before tax	(346,208)	1,181,220	835,010
Deferred income tax expense	-	(220,000)	(220,000)
Net income (loss) from discontinued operations	(346,208)	961,220	615,012
Cash flow from (used in) disposal assets			
Operating activities	(371,694)	1,265,526	893,832
Investing activities	(142,486)	(323,064)	(465,550)
Financing activities	529,110	(988,316)	(459,206)

(Expressed in Canadian Dollars)

5. FORT GARRY SALE AND RUSSELL SALE (continued)

(b) The table below presents the reconciliation of the gain on the sale of FGB and RBC:

	RBC	FGB	Total
	$	$	$
Present value of consideration at closing dates	1,829,803	7,772,995	9,602,798
Cash	3,365	350,000	353,365
Trade receivable	64,610	326,697	391,307
Inventories	608,798	545,948	1,154,746
Prepaid	64,250	11,257	75,507
Property and equipment	1,034,058	1,338,579	2,372,637
Goodwill and intangible assets	24,234	1,928,043	1,952,277
Trade and other payables	(131,307)	(189,449)	(320,756)
Net assets	1,668,008	4,311,075	5,979,083
Transaction costs	139,609	139,608	279,217
	1,807,617	4,450,683	6,258,300
Gain on disposition before income taxes	22,186	3,322,312	3,344,498
Deferred income tax expense	-	(1,045,000)	(1,045,000)
Gain on disposition	22,186	2,277,311	2,299,498
Present value of consideration at closing dates:			
Cash consideration received	1,141,155	6,715,545	7,856,700
Amounts receivable	688,648	1,057,450	1,746,098
	1,829,803	7,772,995	9,602,798
Carrying value of consideration receivable:			
June 30, 2017	711,275	1,091,827	1,803,102

(c) For FGB, during the year ended June 30, 2017, the Company has received $6,715,545, with the remaining balance at face value in the amount of $1,087,125 recorded in the amounts receivable, which represents $1,000,000 of General Liability Holdback and working capital balance of $87,125. As at June 30, 2017, the carrying value of the amounts receivable was $1,091,827. The working capital balance has been fully received subsequent to the year-end. The General Liability Holdback will be released to the Company on November 30, 2017, one year after the closing date, and is subject to 5% interest rate on the amount over $400,000. The Company used a discount rate of 6.15% for the outstanding holdback balance, which is based on the estimated interest rate should the Company be required to borrow from a bank. During the year ended June 30, 2017, the Company recorded interest income of $34,377 from this transaction.

(d) For RBC, during the year ended June 30, 2017, the Company has received $1,141,155, with the remaining balance at face value in the amount of $680,000 recorded in the amounts receivable, which represents $200,000 of General Liability Holdback and $480,000 of outstanding consideration. Both amounts will be released to the Company on December 15, 2017, one year after the closing date and is subject to a 7.5% interest rate. As at June 30, 2017, the carrying value of the accounts receivable was $711,275. The Company used a discount rate of 6.15% for the outstanding holdback balance, which is based on the estimated interest rate should the Company required to borrow from a bank. During the year ended June 30, 2017, the Company recorded interest income of $40,691 from this transaction.

(Expressed in Canadian Dollars)

5. FORT GARRY SALE AND RUSSELL SALE (continued)

(e) Accounts receivable of the Company as at June 30, 2017 are as follows:

	RBC	FGB	RBI	Total
	$	$	$	$
Asset sales consideration receivable:				
General Liability Holdback	200,000	1,000,000	-	1,200,000
Working capital balance adjustment	-	87,125	-	87,125
Consideration outstanding	480,000	-	-	480,000
Interest receivable	51,000	30,000	-	81,000
Discounted value on consideration receivable	(19,725)	(25,298)	-	(45,023)
	711,275	1,091,827	-	1,803,102
Other receivables	2,040	-	34,342	36,382
	713,315	1,091,827	34,342	1,839,484

Amounts receivable of the Company as at June 30, 2016 are as follows:

	RBC	FGB	RBI	Total
	$	$	$	$
Trade receivables	317,311	394,033	-	711,343
Other receivables	-	-	63,751	63,751
	317,311	394,033	63,751	775,094

6. INVENTORIES AND COST OF SALES

	2017	2016
	$	$
Finished goods	**–**	202,461
Work-in-progress	**–**	310,654
Raw materials	**–**	627,245
	–	1,140,360

During the years ended June 30, 2017 and 2016, there were no charges recorded in cost of sales relating to obsolete, damaged or unsellable finished goods inventory. There were no reversals of amounts previously charged to cost of sales in respect of write-downs of inventory for both year-ends.

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

	2017	2016
	$	$
Cash component:		
Inventories	**1,644,175**	3,511,847
Non-cash component:		
Depreciation	**153,298**	334,558
Cost of sales	**1,797,473**	3,846,405

(Expressed in Canadian Dollars)

7. INTANGIBLE ASSETS

	Brands and Trademarks	Website	Total
Cost	$	$	$
Balance as at June 30, 2015	1,941,229	5,975	1,947,204
Additions	8,150	7,497	15,647
Balance as at June 30, 2016	**1,949,379**	**13,472**	**1,962,851**
Additions	2,276	–	2,276
Disposals	(1,951,655)	(13,472)	(1,965,127)
Balance as at June 30, 2017	**–**	**–**	**–**
Accumulated Depreciation			
Balance as at June 30, 2015	–	5,975	5,975
Amortization for the year	–	1,250	1,250
Balance as at June 30, 2016	–	7,225	7,225
Amortization for the year	–	521	521
Disposals	–	(7,746)	(7,746)
Balance as at June 30, 2017	**–**	**–**	**–**
Carrying amounts			
June 30, 2016	1,949,379	6,247	1,955,626
June 30, 2017	**–**	**–**	**–**

8. RESTRICTED TERM DEPOSITS

A term deposit of $108,010 has been pledged as security for a $100,000 bank line of credit (June 30, 2016 – $107,006). As at June 30, 2017, the balance has been included in cash and cash equivalents as management expects to realize the asset during the year ended June 30, 2018. During the year ended June 30, 2017, the Company has earned interest on the term deposit in the amount of $1,004 (2016 - $7,006).

(Expressed in Canadian Dollars)

9. PROPERTY AND EQUIPMENT

	Computer $	Equipment $	Leasehold improvements $	Office furniture and fixtures $	Vehicles $	Refundable containers $	Total $
Cost							
Balance as at June 30, 2015	77,931	6,070,239	1,508,294	63,844	486,972	962,354	9,169,634
Additions	1,790	448,147	64,450	–	–	75,452	589,839
Government assistance received	–	(108,695)	(23,094)	–	–	–	(131,789)
Balance as at June 30, 2016	**79,721**	**6,409,691**	**1,549,650**	**63,844**	**486,972**	**1,037,806**	**9,627,684**
Additions	**943**	–	–	–	–	**35,141**	**36,083**
Disposals	**(88,664)**	**(6,409,691)**	**(1,549,650)**	**(63,844)**	**(486,972)**	**(1,072,947)**	**(9,663,767)**
Balance as at June 30, 2017	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Accumulated Depreciation							
Balance as at June 30, 2015	71,800	3,905,239	1,325,482	63,844	447,068	917,364	6,730,797
Depreciation	2,385	271,345	37,200	–	39,904	44,573	395,407
Balance as at June 30, 2016	**74,185**	**4,176,584**	**1,362,682**	**63,844**	**486,972**	**961,937**	**7,126,204**
Depreciation	**802**	**127,178**	**18,215**	**–**	**–**	**24,981**	**171,176**
Disposals	**(74,987)**	**(4,303,762)**	**(1,380,897)**	**(63,844)**	**(486,972)**	**(986,918)**	**(7,297,380)**
Balance as at June 30, 2017	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Carrying amounts							
June 30, 2015	6,131	2,165,000	182,812	–	39,904	44,990	2,438,837
June 30, 2016	5,536	2,233,107	186,968	–	–	75,869	2,501,480
June 30, 2017	**–**	**–**	**–**	**–**	**–**	**–**	**–**

As at June 30, 2016, equipment includes assets under finance leases with a cost of $439,719 and accumulated depreciation of $137,876. Vehicles include assets under finance leases with a cost of $473,775 and accumulated depreciation of $473,775. During the year ended June 30, 2017, the Company has recognized depreciation of $17,878 in expenses (2016 - $60,849) and $334,558 in cost of sales.

During the year ended June 30, 2016, the Company has received government assistance from Manitoba Agriculture, Food and Rural Development in the amount of $108,695 in relation to a purchase of brewing and cooling equipment for its Winnipeg facility. The assistance received was recognized as a reduction in the cost of equipment purchased. As at June 30, 2016, the Company has received an incentive payment of $23,094 from Manitoba Hydro in relation to installation of energy efficient lightning in the Company's operating facilities.

(Expressed in Canadian Dollars)

10. LONG-TERM DEBT

	2017	2016
	$	**$**
Term bank loan, bearing interest at a base rate of 5.15% plus a variance of 1%, repayable in monthly installments of $8,750 plus interest maturing on April 15, 2023, secured by the assets of Russell and Fort Garry. The loan was fully repaid during the year ended June 30, 2017. (a)	–	717,500
Term bank loan, bearing interest at a base rate of 5.15% plus a variance of 1%, repayable in monthly installments of $1,750 plus interest maturing on July 15, 2025, secured by the assets of Russell and Fort Garry. The loan was fully repaid during the year ended June 30, 2017. (b)	–	190,750
Term bank loan, bearing interest at a floating base rate of 4.70% plus a variance of 3%, repayable in monthly installments of $830 plus interest maturing on January 15, 2021, secured by the assets of Russell and Fort Garry. The loan was fully repaid during the year ended June 30, 2017. (c)	–	45,650
	–	953,900
Less: current portion of long-term debt	–	(135,960)
Long-term portion of long-term debt	–	817,940

(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 is 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 year ended June 30, 2017, the Company recorded interest expense of $33,306 including a prepayment indemnity of $10,321, which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income (loss).

(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 July 15, 2025, is 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 year ended June 30, 2017, the Company recorded interest expense of $8,796 including a prepayment indemnity of $2,788, which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income (loss).

(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 January 15, 2021 is 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 year ended June 30, 2017, the Company recorded interest expense of $2,343 including a prepayment indemnity of $796, which has been recorded as interest on long-term debt in the consolidated statement of comprehensive income (loss).

11. UNEARNED LICENSE FEES

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

Pursuant to the License Agreement, the Company received 20% of the common shares of the Licensee (“Licensee Common Shares”) with an estimated fair value of $100,000. During the year ended June 30, 2014, the Company’s interest in the Licensee decreased to 7.69% and remained the same as at June 30, 2015 and 2016. As a result, the Company has used the cost method to account for its investment due to the fact that the Company has no significant influence over the Licensee’s management of operations. During the year ended June 30, 2015, the Company determined that the long-term investment was not recoverable, and a loss in the amount of $100,000 was recorded as a write-off of long-term investment in the consolidated statement of comprehensive income.

In addition, the Company will be entitled to ongoing royalties of $23 per hectolitre of beer produced and sold by the Licensee. The term of the agreement is for four years and expired on October 1, 2016. During the year ended June 30, 2017, the Company has recognized $nil (2016 - $1,274) in royalties and $6,250 (2016 - $25,000) in license fees earned under the agreement, which has been included in other income in the statement of operations. As at June 30, 2017, the unearned license fee is $nil (2016 - $6,250).

The Company disposed of this investment in the Russell Sale (see Note 1).

12. SHARE CAPITAL

(a) Authorized Share Capital

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

(b) Issued Share Capital

There was no change in number of outstanding shares during the years ended June 30, 2017 and 2016.

On April 14, 2017, the Company declared and paid a return of capital of $0.05 per common share to those shareholders of record at the close of business on April 4, 2017, for a total distribution of $4,354,269.

(c) Stock Options

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

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

(c) Stock Options (continued)

On July 9, 2014, the Company granted 4,550,000 incentive stock options to key employees and directors exercisable at $0.07 per share expiring five years from the grant date, pursuant to its stock option plan. The options vest with 1/24th of the granted options vesting each monthly anniversary of the date of grant for 24 months. The fair value of each option granted was $0.07 calculated using the Black-Scholes option pricing model at the date of grant using the following assumptions: expected option life for 5 years; forfeiture rate of 0%, risk-free interest rate of 1.46%; expected dividend yield of 0% and expected stock price volatility of 112%. During the year ended June 30, 2017, the Company recorded $1,564 (2016 - $66,568) compensation cost included in selling, general and administrative expense relating to these options.

During the year ended June 30, 2016, a Director resigned resulting in the forfeiture of 200,000 stock options. As a result of the forfeiture, $11,842 was reversed from contributed surplus and recorded as a reduction to compensation cost in selling, general and administrative expense during the current year.

Stock option activity during the years ended June 30, 2017 and 2016 is presented below:

	2017			2016		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of year	**4,400,000**	**$**	**0.07**	4,600,000	$	0.07
Expired	**(50,000)**		**–**	–		–
Forfeited	**(750,000)**		**–**	(200,000)		0.07
Outstanding, end of year	**3,600,000**	**$**	**0.07**	4,400,000	$	0.07

At June 30, 2017, the following stock options are outstanding and exercisable:

Exercise Price	**Expiry Date**	**Number of Options**	**Weighted Average Remaining Life**	**Weighted Average Exercise Price**
$ 0.07	**July 9, 2019**	**3,600,000**	**2.02 years**	**$ 0.07**

On April 3, 2017, the board of directors approved to pay to the holders of stock options, for each stock option held and not exercised at such time, an amount equal to the aggregate of any subsequent distributions on a per share basis minus $0.02, being the exercise price less the initial distribution of $0.05 as described in Note 12(b), subject to the completion of any subsequent distributions and the aggregate of any subsequent distributions on a per share basis being greater than $0.02.

The Company estimated the amount to be distributed to the stock option holders would be approximately $60,000, which has been recorded as a current liability in the consolidated statement of financial position and share-based compensation in the statement of comprehensive income.

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

(d) Warrants

Warrant activity during the years ended June 30, 2017 and 2016 is presented below:

	Number of Warrants	Weighted Average Exercise Price
		$
Outstanding and exercisable, June 30, 2015	4,000,000	0.05
Expired	(4,000,000)	0.05
Outstanding, June 30, 2017 and 2016	**–**	**–**

13. INCOME TAXES

(a) Deferred Tax Assets and Liabilities

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2017	2016
	$	$
Deferred tax assets (liabilities):		
Non-capital losses carried forward	**2,047,000**	3,129,000
Tax value of property and equipment in excess of book value	**-**	(110,000)
Tax value of intangible assets in excess of book value	**-**	(445,000)
Tax value of long-term debt in excess of book value	**-**	-
Tax value of capital losses carried forward	**14,000**	14,000
Share and long-term debt issue costs available to be deducted for tax purposes	**4,000**	11,000
	2,065,000	2,599,000
Unrecognized deferred tax assets	**(2,065,000)**	(1,554,000)
Net deferred tax assets	**-**	1,045,000

(Expressed in Canadian Dollars)

13. INCOME TAXES (continued)

(b) Non-Capital Losses Carried Forward and Expiration Dates

The Company has non-capital losses of approximately $7,873,000 (2016 - $11,917,000) which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities, and expiring as follows:

Fiscal Year of Expiry	**Amount**
	$
2026	**56,000**
2027	**187,000**
2028	**448,000**
2029	**468,000**
2030	**441,000**
2031	**1,496,000**
2032	**1,150,000**
2033	**722,000**
2034	**765,000**
2035	**828,000**
2036	**873,000**
2037	**439,000**
	7,873,000

(c) Income tax Recovery (Expense)

Income tax recovery (expense) included in the consolidated statement of comprehensive income is as follows:

		2017		2016
Current income tax recovery (expense)	$	**-**	$	-
Deferred income tax recovery (expense)		**(1,045,000)**		**(220,000)**
Total income tax recovery (expense)	$	**(1,045,000)**	$	**(220,000)**

(d) Reconciliation of Tax Rates

The Company is subject to Canadian federal and provincial taxes at an approximate rate of 26% for the year ended June 30, 2017 (2016 – 26%). The reconciliation of the provision for income taxes at the statutory rate compared to the Company's income tax recovery (expense) as reported is as follows:

	2017	2016
	$	$
Loss (income) before income taxes	**(2,730,631)**	99,669
Statutory tax rate	**26%**	26%
Expected income tax recovery (expense) at statutory rates	**(710,000)**	26,000
Permanent differences	**176,000**	(10,000)
Changes in estimates and other	**-**	(12,000)
Expiry of loss	**-**	(45,000)
Change in unrecognized deferred tax assets	**(511,000)**	(179,000)
Income tax recovery (expense)	**(1,045,000)**	(220,000)

(Expressed in Canadian Dollars)

14. RELATED PARTY TRANSACTIONS AND BALANCES

The Company has identified its directors and certain senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties as follows:

	2017	2016
Short-term benefits:	**$**	$
Salaries and management fees [Note 15(a)]	**178,516**	264,871
Directors fees (b)	**36,154**	47,586
Share-based payments (c)	**1,565**	66,568
	216,235	379,025

(a) During the year ended June 30, 2017, the Company incurred management and miscellaneous fees to a company controlled by the CEO in the amount of $106,801 (2016 – $127,000) and salaries and benefits to the CFO in the amount of $71,715 (2016 – $137,871). As at June 30, 2017, the Company owed $nil to a company controlled by the CEO (2016 – $11,183), which is non-interest bearing, unsecured and due on demand.

(b) During the year ended June 30, 2017, the Company incurred director fees of $36,154 (2016 – $47,586). As at June 30, 2017, the Company owed $6,000 to the independent directors (2016 – $Nil), which were non-interest bearing, unsecured and due on demand.

(c) During the year ended June 30, 2017, the Company granted Nil (2016 – Nil) stock options to directors and key employees and recorded share-based compensation in the amount of $1,564 (2016 – $66,568) (see Note 12(c)).

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.

15. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS

(a) Fair Values of Financial Instruments

The carrying values of cash and cash equivalents, amounts receivable, restricted term deposits, accounts payable, accrued distributions payable to option holders 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:

(Expressed in Canadian Dollars)

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

(b) Fair Value Measurements (continued)

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 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, 2017 $**
Assets:				
Cash and cash equivalents	1,554,218	–	–	1,554,218

	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

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

(c) Financial Risks

(i) Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company maintains substantially all of its cash and cash equivalents and restricted term deposits with major financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. In accordance with terms of the Fort Garry Sale and Russell Sale agreements, as at June 30, 2017 the Company received $7,856,700 of the total purchase prices of $9,602,798. The remainder of the purchase prices are payable by the purchasers in November and December 2017. 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 Fort Garry and Russell Brewing Company assets. The Company is exposed to credit risk on potential non-performance of the purchasers for payments of the remainder of the purchase prices.

(ii) Risk of Indemnification Claims

As part of the Fort Garry Sale and the Russell Sale that closed during the year ended June 30, 2017, the Company provided representations and warranties of the purchased assets to the purchasers. With the Fort Garry Sale, as at June 30, 2017 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. The Russell Sale has $200,000 of General Liability Holdback.

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 future income (loss) and comprehensive income (loss).

(iii) Liquidity Risk

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

Contractual undiscounted cash flow requirements for financial liabilities as at June 30, 2017 in the amount of $117,805 are all due within one year.

As at June 30, 2017, the Company had a working capital of $3,275,897.

16. COMMITMENTS AND CONTINGENCIES

The Company has a bank operating line of credit with a limit of $100,000 which bears interest at prime plus 1% secured by a term deposit of $100,000 (see Note 8). As at June 30, 2017 and 2016, no amount has been drawn from the line of credit.

(Expressed in Canadian Dollars)

17. CAPITAL MANAGEMENT

Before completion of the Fort Garry Sale and the Russell Sale, the Company managed its capital structure in order to ensure sufficient resources are available to meet operational requirements. After the sale of its operating assets, the capital management goal of the Company is to maximize the return of capital to its shareholders. Management considers its long-term debt and shareholders' equity as capital, which consists of the following:

	2017	2016
	$	$
Long-term debt (Note 10)	–	953,900
Shareholders' equity	**3,275,897**	5,942,970
	3,275,897	6,896,870

18. REVENUES

During the year ended June 30, 2017, the Company had sales of $2,062,583 (2016 - $5,045,198) to the Manitoba Liquor & Lotteries which accounted for 61% of its revenues (2016 - 62%) and sales of $804,121 (2016 - $821,544) to the British Columbia Liquor Distribution Board which accounted for 24% of its revenues (2016 - 10%).

	2017	2016
	$	$
Gross revenues	**3,851,279**	9,149,787
Less: Excise tax and provincial mark-up	**443,160**	1,047,949
Revenues	**3,408,119**	8,101,838

19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2017	2016
	$	$
Trade accounts payable	**–**	522,818
GST payable	**–**	132,330
Accrued payroll and bonuses	**–**	219,304
Other accrued liabilities	**51,805**	228,738
	51,805	1,103,190

20. EMPLOYEE BENEFITS

During the year ended June 30, 2017, the Company incurred $998,410 in employee benefits (2016 - $2,152,590) of which $572,118 (2016 - $1,216,907) is included in selling, general and administrative expense and $426,292 (2016 - $935,683) is included in cost of sales.

(Expressed in Canadian Dollars)

21. SUPPLEMENTAL CASH FLOW INFORMATION

	2017	2016
	$	$
Cash paid for:		
Interest	44,445	57,662
Income taxes	-	-
Cash and cash equivalents consist of:		
Demand deposits	266,208	349,575
Term deposits	1,288,010	-
	1,554,218	349,575