RUSSELL BREWERIES INC.
Management's Discussion and Analysis
For the year ended June 30, 2017

This Management's Discussion and Analysis ("MD&A") of Russell Breweries Inc. ("the Company) dated October 30, 2017 provides an analysis of its results of operation and financial condition for the year ended June 30, 2017. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended June 30, 2017 and 2016. Additional information related to Russell Breweries Inc. is available on SEDAR at www.sedar.com and on the Company's website at www.russellbreweries.com.

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

This MD&A was approved and authorized for issuance by the Board of Directors on October 30, 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 located in Surrey, British Columbia, and Fort Garry Brewing Company 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. Fort Garry is Manitoba's oldest and largest brewer and distributor of premium quality beers. The Company's operations include production facilities in Surrey, British Columbia and Winnipeg, Manitoba, corporate offices in Surrey, British Columbia, storage facilities, brewing equipment, and delivery and sales vehicles. Both breweries produce a variety of limited and seasonal products in addition to their main product lines including: Russell Cream Ale, Russell Pale Ale, Russell Extra Special Lager, Russell IP'eh! India Pale Ale, A Wee Angry Scotch Ale, Blood Alley Bitter, Rocky Mountain Pilsner, Eastern Promises Czech Pilsner, Hop Therapy India Session Ale, Fort Garry Dark Ale, Fort Garry Pale Ale, Fort Garry Premium Light, Fort Garry Red and Stone Cold Lager.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS

On October 5, 2016, the Company entered into two separate purchase agreements pursuant to which it agreed to sell to separate purchases, substantially all of the assets related to 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 normal operations following completion of the Fort Garry Sale and the Russell Sale.

On March 15, 2017, the Company finalized with the Russell Sale purchaser closing working capital adjustments for the Russell Sale.

On May 16, 2017, the Company finalized with the Fort Garry purchaser closing working capital adjustments for the Fort Garry Sale.

On April 4, 2017, the Company completed a cash distribution to its shareholders by way of a return of capital, principally funded from the proceeds of the Fort Garry Sale and Russell Sale, in the amount of CAD$0.05 per Russell common share.

GOING CONCERN AND LIQUIDATION BASIS OF ACCOUNTING

Subsequent to the disposals of substantially all of assets related to its Fort Garry Brewing and Russell Brewing operating business on December 15, 2016, the Company ceased operations and became inactive. The Common Shares of the Company are delisted from the TSX Venture Exchange, transferred to a listing on the NEX board of the Exchange, a separate board that provides a trading forum for listed companies that have low levels of business activity or have ceased to carry on an active business. As a result, going concern is no longer applicable, resulting in the financial statements prepared under liquidation basis of accounting. As at June 30, 2017, the Company assets are comprised primarily of cash and receivables from the two transactions.

SELECTED INFORMATION

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

Selected Information	Year Ended June 30, 2017	Year Ended June 30, 2016
	$	$
Statement of Comprehensive Income Data		
Expenses	636,458	1,162,507
Loss before discontinued operations	(501,226)	(934,681)
Discontinued operations	2,186,857	615,012
Net income (loss) and comprehensive income	1,685,631	(319,669)
Basic and diluted earnings per share		
Continuing operations	(0.01)	(0.01)
Discontinuing operations	0.03	0.01
Statement of Financial Position Data		
Total assets	3,393,702	8,017,493
Total long term financial liabilities	–	817,940

PERFORMANCE AND RESULTS

Year Ended June 30, 2017 ("2017F YTD")

The Company had a net and comprehensive income of $1,685,631 for 2017F YTD compared to the net and comprehensive loss of $319,669 for the year ended June 30, 2016 ("2016F YTD"). The increase in net income and comprehensive income was primarily due to gain of $3,344,498 on sale of discontinued operations before tax, partially offset by deferred income tax expense of $1,045,000.

FORT GARRY SALE AND RUSSELL SALE

For the Fort Garry Sale, during the year ended June 30, 2017 the Company received $6,715,545 of proceeds. A working capital adjustment of $87,125 has been received subsequent to the year-end. In accordance with the terms of the Fort Garry Sale agreement, a General Liability Holdback amount of $1,000,000 shall be released to the Company on December 1, 2017, less the aggregate amount of all losses specified in any then unresolved indemnification claims made by the Fort Garry purchaser. The General Liability Holdback is subject to interest equal to 5% per year on the amount equal to the release mount minus $400,000. As of June 30, 2017, there are no unresolved indemnification claims made by the Fort Garry purchaser.

With the Russell Sale, during the year ended June 30, 2017 the Company received $1,141,155 of the proceeds. In accordance with the terms of the Russel Sale agreement, the balance of $480,000 outstanding consideration shall be paid on December 16, 2017, and the General Liability Holdback amount of $200,000 shall be released on the same day. As of June 30, 2017, there are no unresolved indemnification claims made by the Russell purchaser.

RESULTS OF DISCONTINUED OPERATIONS

Net revenue from discontinued operations for 2017F YTD was $3,408,120 down $4,693,718 or 58% compared to $8,101,838 for 2016F YTD. The decrease was mainly due to shortened operating days during the fiscal year as the Company discontinued operations after the Fort Garry Sale and the Russell Sale were completed.

Gross profit from discontinued operations for 2017F YTD decreased by $2,664,786 or 62% to $1,610,647 compared to $4,255,433 for 2016F YTD. Gross margin percentage for 2017F YTD was down 6% to 47% compared to 53% for 2016F YTD. The decrease in gross margin percentage was mainly due to higher repair and maintenance costs, as well as higher raw material and production labour costs as a percentage of revenue.

Selling, general and administration expenses of discontinued operations for 2017F YTD were $1,615,714 down $1,413,384 or 47% compared to $3,029,098 for 2016F YTD. This is primarily due to shortened operating days during the fiscal year as the Company discontinued operations after the Fort Garry Sale and the Russell Sale were completed.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

At June 30, 2017, the Company had cash and cash equivalents of $1,554,218. Current liabilities include $51,805 of accounts payable and accrued liabilities, $60,000 of accrued distribution payable to option holders (Note 12(c) of Consolidated Financial Statements), and $6,000 due to related parties.

CASH FLOW

Year Ended June 30, 2017 ("2017F YTD")

Cash used in operating activities in 2017F YTD was $1,304,904 compared to cash provided of $221,074 in 2016F YTD. The increase in cash used was primarily due to net loss during the year and net changes in working capital items as the Company discontinued normal operations following the Fort Garry Sale and the Russell Sale.

Cash provided in 2017F YTD from investing activities was $7,817,716 compared to cash used of $473,697 in 2016F YTD, mainly due to proceeds received on sale of disposal groups.

During the period, the Company repaid $953,900 in long-term debts and $nil in finance lease obligations compared to repayment of $849,785 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. This amount has been reclassified to Cash and Cash Equivalents in the current year as compared to Restricted Term Deposits in 2016F YTD. 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 were available to meet operational requirements. After closing of the transactions, the capital management goal of the Company is to maximize return of capital on Common Shares. (Note 17 of the consolidated financial statements).

OUTSTANDING SHARE DATA

As at June 30, 2017, 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, 2017	87,083,788	N/A	N/A
Stock options	3,600,000	$0.07	July 9, 2019
Fully Diluted as of the date of this MD&A	90,683,788	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 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 period 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.

(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 period 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.

(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 period 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.

CONTRACTUAL OBLIGATIONS, COMMITMENTS

A summary of the Company's contractual obligations for the next five years are as follows (Note 19, 12(c), 14(b) 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	**51,805**	–	–	–	51,805
Due to related parties and Accrued distributions payable to option holders	**66,000**	–	–	–	66,000
	117,805	–	–	–	117,805

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: (Note 14 of Consolidated Financial Statements)

	2017	2016
Short-term benefits:	**$**	$
Salaries and management fees (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). (Note 12(c) of Consolidated Financial Statements).

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.

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.

- IFRS 9 – *Financial Instruments* – In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013, new general hedge requirements were added to the standard. In July 2014, the final version of IFRS 9 was issued and adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics.

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

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

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

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Company has not yet been determined.

CRITICAL ACCOUNTING ESTIMATES

The preparation of these consolidated 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.

Significant Estimates

The accounting for 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 requires that management makes estimates regarding valuation and collectability of accounts receivable. Actual results could differ from the estimates made.

RISKS AND UNCERTAINTIES

Credit Risk

For the Russell Sale and Fort Garry Sale agreement, as at June 30, 2017 the Company received $7,856,700 of the total purchase prices of $9,602,798. In accordance with the terms of the Russel Sale agreement, the balance of $480,000 outstanding consideration shall be paid on December 16, 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 Russell Brewing Company assets. The Company is exposed to credit risk on potential non-performance of the Russell 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 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 is held in escrow, for potential indemnification claims against these representations and warranties. For the Russell Sale, as at June 30, 2017 a General Liability Holdback amount of $200,000 is held by the purchaser, 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.

FINANCIAL INSTRUMENTS

(a) Fair Values of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, restricted term deposits, accounts payable, and due to related parties are reasonable estimates of fair values due to the relatively short periods to maturity and the commercial terms of these instruments.

(b) Fair Value Measurements

Certain of the Company's financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

Level 1 - Quoted Prices in Active Markets for Identical Assets
Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Significant Other Observable Inputs
Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Significant Unobservable Inputs
Unobservable (supported by little or no market activity) inputs.

Financial assets and liabilities measured at fair value on a recurring basis were presented on the Company's June 30, 2017 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

RETURN OF CAPITAL

On April 4, 2017, the Company completed the initial distribution to its shareholders by way of a return of capital in the amount of CAD$0.05 per Russell common share. The exact timing and amount of the remaining distribution has not yet been determined by the Company at the date of this MD&A.

WINDING UP OF THE COMPANY

At the annual general and special meeting of Russell shareholders held on November 28, 2016, the Russell shareholders approved the voluntary dissolution of the Company in accordance with the Business Corporations Act (British Columbia) and the delisting of the Common shares of the Company from the NEX Board (the "Dissolution").

As at the date of this MD&A and unless it is determined that the Dissolution is no longer in the best interests of the Company, the Company intends to proceed with the Dissolution after the final distribution is completed in the following manner:

1. The Company will obtain and deposit in its records office an affidavit, sworn by a director of the Company, stating that: (i) the Company's dissolution has been duly authorized in accordance with the applicable provisions of the BCBCA; (ii) the Company has no assets; and (iii) the Company has no liabilities or has made adequate provision for payment of each of its liabilities.

2. The Company will file with the registrar an application for dissolution containing a statement that the affidavit (as described above) has been obtained and deposited in the Company's records office.

3. The Company will be dissolved on the date and time that the application for dissolution is filed with the registrar, or on a date specified in the application for dissolution.

4. The registrar will issue a certificate of dissolution showing the date and time on which the Company is dissolved, furnish a copy of the certificate of dissolution to: (i) the person who is required to retain the records of the Company; and (ii) the person who submitted the application for dissolution on behalf of the Company, and publish a notice that the Company has been dissolved.