RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2017 AND 2016

UNAUDITED

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by, and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of the financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited; Expressed in Canadian Dollars)

		September 30, 2017		June 30, 2017
ASSETS				
Current				
Cash and cash equivalents (Note 8)	$	**1,596,680**	$	1,554,218
Accounts receivable (Note 4(b), Note 14(c) (i))		**1,752,359**		1,839,484
Inventories (Note 5)		**–**		–
Prepaid expenses and deposits		**–**		–
		3,349,039		3,393,702
PROPERTY AND EQUIPMENT (Note 6)		**–**		–
INTANGIBLE ASSETS (Note 7)		**–**		–
RESTRICTED TERM DEPOSITS (Note 8)		**–**		–
DEPOSITS		**–**		–
DEFERRED TAX ASSETS		**–**		–
	$	**3,349,039**	$	3,393,702
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 18)	$	**126,719**	$	51,805
Accrued distribution payable to option holders (Note 10(c))		**60,000**		60,000
Due to related parties (Note 13(b))		**–**		6,000
		186,719		117,805
		186,719		117,805
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 10)		**7,928,818**		7,928,818
SHARE-BASED PAYMENTS RESERVES		**3,854,489**		3,854,489
DEFICIT		**(8,620,987)**		(8,507,410)
		3,162,320		3,275,897
	$	**3,349,039**	$	3,393,702

NATURE OF OPERATIONS (Note 1)
LIQUIDATION BASIS OF ACCOUNTING (Note 2)
COMMITMENTS AND CONTINGENCIES (Note 15)

Approved and authorized for issuance on behalf of the Board of Directors on November 28, 2017:

/s/ Alnesh Mohan
Alnesh Mohan, Director

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

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

RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited; Expressed in Canadian Dollars)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
EXPENSES		
Depreciation (Note 6)	**–**	760
General and administrative (Notes 10(c), 13)	**29,912**	96,260
	29,912	97,020
LOSS BEFORE OTHER INCOME (EXPENSE)	**(29,912)**	(97,020)
OTHER INCOME (EXPENSE)		
Other income	**–**	16,750
Interest on long-term debt	**–**	(10,955)
	–	5,795
LOSS FROM CONTINUING OPERATIONS	**(85,599)**	(91,225)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 4)	**(27,978)**	403,160
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(113,577)**	311,935
EARNINGS (LOSS) PER SHARE – basic and diluted		
Continuing operations	**$ (0.00)**	$ (0.00)
Discontinuing operations	**$ (0.00)**	$ 0.00
Weighted average number of shares outstanding – basic and diluted	**87,083,788**	87,083,788

RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(**Unaudited; Expressed in Canadian Dollars**)

	Share Capital				
	Number of Shares	Value	Share-based payments reserves	Deficit	Total Shareholders' Equity
Balance, June 30, 2017	**87,083,788**	**$7,928,818**	**$3,854,489**	**$(8,507,410)**	**$3,275,897**
Comprehensive income for the period	**–**	**–**	**–**	**(113,577)**	**(113,577)**
Balance, September 30, 2017	**87,083,788**	**$7,928,818**	**$3,854,489**	**$(8,620,987)**	**$3,162,320**

	Share Capital				
	Number of Shares	Value	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
Comprehensive loss for the period	–	–	–	311,935	311,935
Share-based compensation	–	–	1,561	–	1,561
Balance, September 30, 2016	87,083,788	$12,283,087	$3,854,485	$(9,881,106)	$6,256,466

RUSSELL BREWERIES INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited; Expressed in Canadian Dollars)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss) for the period	**$ (113,577)**	$ 311,935
Adjusted for non-cash items:		
Depreciation	**–**	103,443
Recognition of unearned license fee (Note 9)	**–**	(6,250)
Share-based compensation (Note 10 (c))	**–**	1,561
	(113,577)	410,689
Net changes in non-cash working capital items:		
Accounts receivable	**87,125**	153,414
Prepaid expenses and deposits	**–**	(30,738)
Inventories	**–**	22,867
Due to and from related parties	**(6,000)**	–
Accounts payable and accrued liabilities	**74,914**	(115,339)
	42,462	440,893
INVESTING ACTIVITIES		
Purchases of property and equipment	**–**	(32,601)
Acquisition of intangible assets	**–**	(2,901)
	–	(35,502)
FINANCING ACTIVITIES		
Repayment of long-term debt	**–**	(33,990)
	–	(33,990)
INCREASE IN CASH AND CASH EQUIVALENTS	**42,462**	371,401
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**1,554,218**	349,575
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 1,596,680**	$ 720,976

SUPPLEMENTAL CASH FLOW INFORMATION (Note 12)

(Unaudited; Expressed in Canadian Dollars)

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 Company's fiscal year that 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").

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 unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the Company's June 30, 2017 annual audited consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on November 28, 2017.

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

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

Company Name	Registered	Holding	Functional Currency
Russell Breweries Inc.	British Columbia	Parent Company	Canadian Dollar
6951946 Manitoba Ltd.(i)	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 condensed consolidated interim financial statements

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

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 three months ended September 30, 2017 and 2016 have been presented as discontinued operations (see Note 4).

c) Basis of Measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis, presented in Canadian dollars, except where otherwise indicated.

The condensed consolidated interim financial statements have been prepared on a liquidation basis of accounting for the three months ended September 30, 2017 and 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 September 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 September 30, 2017, the Company has sufficient assets to settle all of its outstanding liabilities.

d) Significant Accounting Estimates and Judgments

The preparation of these condensed consolidated interim financial statements requires management to make judgments in applying accounting policies. Judgments that have the most significant effect on the amounts recognized in the condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that have been used in the preparation of these condensed interim financial statements are summarized in the audited consolidated financial statements of the Company for the year ended June 30, 2017. These statements should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2017.

(Unaudited; Expressed in Canadian Dollars)

4. 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 condensed consolidated interim 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.

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

September 30, 2017	**RBC**	**FGB**	**Total**
Revenue (Note 17)	$-	$-	$-
Cost of sales (Note 5)	-	-	-
Gross profit	-	-	-
Expenses			
Depreciation	-	-	-
Other expense (income)	27,978	-	27,978
	27,978	-	27,978
Income (loss) from operating activities of discontinued operations	(27,978)	-	(27,978)
Net Income (loss) from discontinued operations	(27,978)		(27,978)
Cash flow from (used in) disposal assets			
Operating activities	(27,978)	-	(27,978)
Investing activities	-	-	-
Financing activities	-	-	-

(Unaudited; Expressed in Canadian Dollars)

4. FORT GARRY SALE AND RUSSELL SALE (continued)

September 30, 2016	**RBC**	**FGB**	**Total**
Revenue (Note 17)	$958,155	$1,335,015	$2,293,170
Cost of sales (Note 5)	432,566	636,681	1,069,247
Gross profit	525,589	698,334	1,223,923
Expenses			
Depreciation	3,824	-	3,824
Selling, general and administrative	500,015	304,716	804,731
Other expense (income)	-	3,789	3,789
	503,839	308,505	812,344
Income (loss) from operating activities of discontinued operations	21,750	389,829	411,579
Net Income (loss) from discontinued operations			
Cash flow from (used in) disposal assets			
Operating activities	161,840	224,217	386,057
Investing activities	(33,226)	-	(33,226)
Financing activities	-	-	-

(b) Amounts receivable of Company as at September 30, 2017 are as follows:

	RBC	**FGB**	**RBI**	**Total**
	$	$	$	$
Asset sales consideration receivable				
General Liability Holdback	200,000	1,000,000	-	1,200,000
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	1,004,702	-	1,715,977
Other receivables	2,040	-	34,342	36,382
	713,315	1,004,702	34,342	1,752,359

Amounts receivable of Company as at September 30, 2017 are as follows:

	RBC	**FGB**	**RBI**	**Total**
	$	$	$	$
Trade receivables	171,123	378,335	-	549,458
Other receivables	2,040	-	72,222	74,262
	2,040	-	72,222	74,262

(Unaudited; Expressed in Canadian Dollars)

5. INVENTORIES AND COST OF SALES

The Company did not maintain any inventory at September 30, 2017 (June 30, 2017 – nil).

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
Cash component: Inventories	**$ -**	$ 912,615
Non-cash component: Depreciation (Note 6)	-	89,046
	$ -	$ 1,001,661

(Unaudited; Expressed in Canadian Dollars)

6. PROPERTY AND EQUIPMENT

	Computer	Equipment	Leasehold improvements	Office furniture and fixtures	Vehicles	Returnable containers	Total
Cost							
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	36,084
Disposals	(80,664)	(6,409,691)	(1,549,650)	(63,844)	(486,972)	(1,072,947)	(9,663,768)
Balance as at June 30, 2017 and September 30, 2017	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-
Disposal	-	-	-	-	-	-	-
Accumulated Depreciation							
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 and September 30, 2017	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Carrying amounts							
June 30, 2016	5,536	2,233,107	186,968	-	-	75,869	2,501,480
June 30, 2017 and September 30, 2017	-	-	-	-	-	-	-

The Company has recognized depreciation of $nil in inventory (September 30, 2016 - $13,073), $nil in expenses (September 30, 2016 - $13,772) and $nil in cost of sales (September 30, 2016 - $75,973).

(Unaudited; Expressed in Canadian Dollars)

7. INTANGIBLE ASSETS

	Brands and Trademarks	Website	Total
Cost			
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 and September 30, 2017	-	-	-
Additions	-	-	-
Disposals	-	-	-
Accumulated Depreciation			
Balance as at June 30, 2016	-	7,225	7,225
Depreciation for the year	-	521	521
Disposals	-	(7,746)	(7,746)
Balance as at June 30, 2017 and September 30, 2017	-	-	-
Depreciation for the year	-	-	-
Disposals	-	-	-
Carrying amounts			
June 30, 2016	1,949,379	6,247	1,955,626
June 30, 2017 and September 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, 2017 – $108,010). As at September 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. As at September 30, 2017, accrued interest has been earned on the term deposit in the amount of $nil (2016 - $7,006).

9. 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 period ended September 30, 2017, the Company has recognized $nil (2016 - $6,250) in license fees earned under the agreement, which has been recorded as other income in the statement of operations.

10. 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 three months ended September 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.

On July 6, 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%.

(Unaudited; Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

During the period ended September 30, 2017, the Company recorded a total amount of $nil (2016 - $1,561) compensation cost included in selling, general and administrative expense relating to these options.

Stock option activity during the period ended September 30, 2017 and the year ended June 30, 2017 is presented below:

	September 30, 2017			June 30, 2017		
	Number of Shares		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Outstanding, beginning of period	**3,600,00**	**$**	**0.07**	4,400,000	$	0.07
Expired	**–**		**–**	(50,000)		–
Forfeited	**–**		**–**	(700,000)		–
Outstanding, end of period	**3,600,000**	**$**	**0.07**	3,600,00	$	0.07

At September 30, 2017, the following stock options are outstanding:

	Options Outstanding			**Options Exercisable**	
Exercise Price $	**Number of Shares**	**Weighted Average Remaining Life (in years)**	**Weighted Average Exercise Price $**	**Number of Shares**	**Weighted Average Exercise Price $**
0.07	**3,600,000**	**1.77**	**0.07**	**3,600,000**	**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 10(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 condensed consolidated interim statement of financial position and share-based compensation in the condensed consolidated interim statement of comprehensive income (loss).

(Unaudited; Expressed in Canadian Dollars)

11. EARNINGS (LOSS) PER SHARE

The computation of net earnings (loss) per share attributable to common shareholders is as follows:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
Net income (loss)	**$ (113,577)**	$ 311,935
Common shares outstanding, beginning of year	**87,083,788**	87,083,788
Number of common shares outstanding during the year	**87,083,788**	87,083,788
Earnings (loss) per share (Basic and diluted)	**$ (0.00)**	$ 0.00

The number of shares outstanding used in the computation of loss per share for the period ended September 30, 2017 was 87,083,788 (June 30, 2017 – 87,083,788). Outstanding stock options, warrants, and agent unit options have not been considered in the computation of diluted loss per share as the result is anti-dilutive.

12. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
Cash paid for:		
Interest	–	$ 14,744

13. 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:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
Short-term benefits:		
Salaries and management fees [Note 13(a)]	$ 20,881	$ 72,685
Directors fees [Note 13(b)]	6,000	13,603
Share-based payments [Note 13(c)]	–	1,561
	$ 26,881	$ 87,849

13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) During the period ended September 30, 2017, the Company incurred management fees to a company controlled by the CEO in the amount of $20,881 (2016 - $32,125) and salaries and benefits to the CFO in the amount of $nil (2016 – $40,560). As at September 30, 2017, the Company owed $nil to a company controlled by the CEO (June 30, 2017 – $nil), which is non-interest bearing, unsecured and due on demand.

(b) During the period ended September 30, 2017, the Company incurred director fees of $6,000 (2016 - $13,603). As at September 30, 2017, the Company owed $nil to the independent directors (2017 – $nil), which were non-interest bearing, unsecured and due on demand.

(c) During the period ended September 30, 2017, the Company granted $nil (2016 – $nil) stock options to directors and key employees and recorded share-based compensation in the amount of $nil (2016 - $1,561) (Note 10 (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.

14. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS

(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.

(Unaudited; Expressed in Canadian Dollars)

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

Financial assets and liabilities measured at fair value on a recurring basis were presented on the Company's September 30, 2017 condensed consolidated interim statement of financial position as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets For Identical Instruments (Level 1) $	Significant Other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $	Balance as of September 30, 2017 $
Assets:				
Cash and cash equivalents	1,596,680	–	–	1,596,680

(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 September 30, 2017 the Company received $7,943,825 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 Russell Sale 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 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. For the Fort Garry Sale, as at September 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).

(Unaudited; Expressed in Canadian Dollars)

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

(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 September 30, 2017 in the amount of $186,719 are all due within one year.

As at September 30, 2017, the Company had a working capital of $3,162,320.

15. 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 September 30, 2017, no amount has been drawn from the line of credit.

16. 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 shareholders' equity as capital:

	September 30, 2017	June 30, 2017
Shareholders' equity	**3,162,320**	3,275,897

17. REVENUES

During the period ended September 30, 2017, the Company had sales of $nil (2016 - $1,398,325) to the Manitoba Liquor and Lotteries Commission, and $nil (2016 – $201,727) to the British Columbia Liquor Distribution Board.

		Three Months Ended September 30, 2017		Three Months Ended September 30, 2016
GROSS REVENUES	**$**	–	$	2,481,430
LESS: EXCISE TAX AND PROVINCIAL MARK-UP		–		252,848
REVENUES	**$**	–	$	2,228,582

18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2017	June 30, 2017
Trade accounts payable	**$ –**	$ –
GST payable	**–**	–
Other accrued liabilities	**126,719**	51,805
	$ 126,719	$ 51,805