RUSSELL BREWERIES INC.
Management's Discussion and Analysis
For the six months ended December 31, 2017

This Management's Discussion and Analysis ("MD&A") of Russell Breweries Inc. ("the Company) dated February 28, 2018 provides an analysis of its results of operation and financial condition for the six months ended December 31, 2017. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements, and accompanying notes for the six months ended December 31, 2017 and 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 unaudited condensed consolidated interim financial statements and related notes of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial amounts in this MD&A are in Canadian dollars, except as otherwise indicated.

This MD&A was approved and authorized for issuance by the Board of Directors on February 28, 2018.

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. 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.

BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS

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.

On December 1, 2017, the Company received final payments related to the Fort Garry Sale.

On December 16, 2017, Company received final payments related to the Russell Sale.

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 16, 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 December 31, 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	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016	Six Months Ended December 31, 2015
	$	$	$
Statement of Comprehensive Income Data			
Net Revenues (after excise tax and provincial mark-up)	–	3,463,310	4,226,373
Expenses	207,477	585,047	721,418
Loss before discontinued operations	(207,477)	(592,812)	(787,167)
Total income (loss) from discontinued operations	(23,329)	3,462,112	776,134
Net income (loss) and comprehensive income	(230,776)	2,869,300	(11,033)
Basic and diluted earnings per share			
Continuing operations	(0.00)	(0.01)	(0.01)
Discontinuing operations	(0.00)	0.04	0.01
Statement of Financial Position Data			
Total assets	3,349,039	9,267,782	7,990,700
Total long term financial liabilities	–	–	665,000

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PERFORMANCE AND RESULTS

Three and Six Months Ended December 31, 2017 ("Q2 2018F" and "2018F YTD)

The Company had a net and comprehensive loss of $117,199 for Q2 2018F, and a net and comprehensive loss of $230,776 for 2018F YTD, compared to net and comprehensive income of $2,557,365 for Q2 2017F, and net and comprehensive income of $2,869,300 for 2017F YTD. The decrease in net income and comprehensive income was primarily due to the one-time gain realized on disposal of assets with the Fort Garry Sale and the Russell Sale in Q2 2017F.

Summary of Quarterly Results

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

Fiscal Year Quarter	2018F Q2	2018F Q1	2017F Q4	2017F Q3	2017F Q2	2017F Q1	2016F Q4	2016F Q3
(in $000, except per share amounts)	$	$	$	$	$	$	$	$
Net revenues	-	-	(111)	56	1,235	2,229	2,066	1,810
Net Income (loss) before discontinued operations	(123)	(86)	306	(214)	(502)	(91)	88	(235)
Net income (loss)	(117)	(114)	(1,186)	3	2,557	312	(392)	83
Net earnings (loss) per share – basic and diluted:								
Continuing operations	(0.00)	(0.00)	0.00	(0.00)	(0.01)	(0.00)	0.00	(0.00)
Discontinuing operations	(0.00)	(0.00)	(0.02)	0.00	0.04	0.00	(0.01)	0.00

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. During the period that ended December 31, 2017 (2018F YTD), the Company received working capital adjustment in the amount of $87,125, and final payments including General Liability Holdback and interest payment in the amount of $1,035,357. As of December 31, 2017, the balance of outstanding asset sales consideration is $nil.

For the Russell Sale, during the year ended June 30, 2017 the Company received $1,141,155 of the proceeds. During the period that ended December 31, 2017 (2018F YTD), the Company received final payments including remaining proceeds, General Liability Holdback and interest payment in the amount of $716,000. As of December 31, 2017, the balance of outstanding asset sales consideration is $nil.

RESULTS OF DISCONTINUED OPERATIONS

Net revenue from discontinued operations for 2018F YTD was $nil compared to $3,529,295 for 2017F YTD, due to the Company ceasing normal operations after the Fort Garry and Russell asset sale transactions were completed.

Total loss from discontinued operations for 2018F YTD was $23,329 compared to total income of $125,736 for 2017F YTD. The decrease in total income was due to the Company ceasing normal operations after the Fort Garry and Russell asset sale transactions were completed.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

As at December 31, 2017, the Company had a positive working capital of $3,045,121. The Company has $3,174,697 of cash and cash equivalents. Current liabilities include $103,945 of accounts payable and accrued liabilities, and $60,000 of accrued distribution payable to option holders (Note 10(c) of condensed consolidated interim financial statements).

Cash Flow

Six Months Ended December 31, 2017 ("2018F YTD")

Cash provided by operating activities in 2018F YTD was $1,620,479 compared to cash used of $887,192 in 2017F YTD. Cash provided in 2018F YTD by investing activities was $nil compared to cash provided of $6,558,801 in 2017F YTD.

The increase in cash provided by operating activities was due to net changes in working capital items, as the Company received final payments of the Fort Garry Sale and the Russell Sale in Q2 2018F. The decrease in cash provided by investing activities was due to disposal of substantially all assets related to the two operating business of the Company with the Fort Garry Sale and the Russell Sale in Q2 2017F.

Capital Management

The Company manages its capital structure in order to ensure sufficient resources are available to meet operational 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 16 of the condensed consolidated interim financial statements).

Outstanding Share Data

As at December 31, 2017, the Company had 87,083,788 common shares issued and outstanding.

Outstanding Share Data	Number of Common Shares
Issued and outstanding as at December 31, 2017	87,083,788
Fully Diluted as of the date of this MD&A	87,083,788

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 December 31, 2017, the Company recorded interest expense of $nil in the condensed 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 period ended December 31, 2017, the Company recorded interest expense of $nil in the condensed consolidated interim 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 period ended December 31, 2017, the Company recorded interest expense of $nil in the condensed consolidated interim statement of comprehensive income (loss).

Contractual Obligations, Commitments

A summary of the Company's contractual obligations for the next five years are as follows (Notes 18, 10(c) of the condensed consolidated interim financial statements):

	Less Than 1 Year **$**	Years 2 and 3 $	Years 4 and 5 $	More Than 5 Years $	Total $
Accounts payable and accrued liabilities	**103,945**	–	–	–	103,945
Due to related parties and Accrued distributions payable to option holders	**60,000**	–	–	–	60,000
	163,945	–	–	–	163,945

RELATED PARTIES

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

	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Short-term benefits:		
Salaries and management fees [Note (a)]	$ 41,762	$ 138,813
Directors fees [Note (b)]	12,000	22,000
Share-based payments [Note (c)]	–	(8,183)
	$ 53,762	$ 152,630

(a) During the six months period ended December 31, 2017, the Company incurred management fees to a company controlled by the CEO in the amount of $41,762 (2016 - $67,098) and salaries and benefits to the CFO in the amount of $nil (2016 – $71,715). As at December 31, 2017, the Company owed $7,269 to a company controlled by the CEO (December 31, 2016 – $7,269), which is non-interest bearing, unsecured and due on demand.

(b) During the six months period ended December 31, 2017, the Company incurred director fees of $12,000 (2016 - $22,000). As at December 31, 2017, the Company owed $nil to the independent directors (2016 – $nil), which were non-interest bearing, unsecured and due on demand.

(c) During the six months period ended December 31, 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 - $(8,183)).

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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of these condensed consolidated interim 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 condensed consolidated interim 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.

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.

Financial assets and liabilities measured at fair value on a recurring basis were presented on the Company's December 31, 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 December 31, 2017 $
Assets:				
Cash and cash equivalents	3,174,697	–	–	3,174,697