

RUSSELL BREWERIES INC.
CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED
March 31, 2018 AND 2017

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.

RUSSELL BREWERIES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION****(Unaudited; Expressed in Canadian Dollars)**

	March 31, 2018	June 30, 2017
ASSETS		
Current		
Cash and cash equivalents	\$ 44,732	\$ 1,554,218
Accounts receivable	6,734	1,839,484
	\$ 51,466	\$ 3,393,702
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 107,869	\$ 51,805
Accrued distribution payable to option holders	—	60,000
Due to related parties (Note 6)	—	6,000
	107,869	117,805
SHAREHOLDERS' (DEFICIT) EQUITY		
SHARE CAPITAL (Note 5)	4,880,885	7,928,818
SHARE-BASED PAYMENTS RESERVES	3,854,489	3,854,489
DEFICIT	(8,791,777)	(8,507,410)
	(56,403)	3,275,897
	\$ 51,466	\$ 3,393,702

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

Approved and authorized for issuance on behalf of the Board of Directors on June 27, 2018:

Signed: "W. Hugh Notman"

Signed: "Norman Yurik"

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 March 31		Nine Months Ended March 31	
	2018	2017	2018	2017
EXPENSES				
General and administrative	39,160	294,409	246,604	799,443
	39,160	294,409	246,604	799,443
LOSS BEFORE OTHER INCOME (EXPENSE)	(39,160)	(294,409)	(246,604)	(799,443)
OTHER INCOME (EXPENSE)				
Other income	—	—	—	—
Interest on long-term debt	—	—	—	—
	—	—	—	—
LOSS FROM CONTINUING OPERATIONS	(39,160)	(294,409)	(246,604)	(799,443)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(14,430)	297,079	(37,763)	3,671,413
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(53,591)	2,670	(284,367)	2,871,970
EARNINGS (LOSS) PER SHARE – basic and diluted				
Continuing operations	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Discontinuing operations	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ 0.04
Weighted average number of shares outstanding – basic and diluted	87,083,788	87,083,788	87,083,788	87,083,788

RUSSELL BREWERIES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIT)****(Unaudited; Expressed in Canadian Dollars)**

	Share Capital		Share-based payments reserves	Deficit	Total Shareholders' Equity
	Number of Shares	Value			
Balance, June 30, 2017	87,083,788	\$7,928,818	\$3,854,489	\$(8,507,410)	\$3,275,897
Comprehensive loss for the period	—	—	—	(284,367)	(284,367)
Return of capital	—	(3,047,933)	—	—	(3,047,933)
Balance, March 31, 2018	87,083,788	\$4,880,885	\$3,854,489	\$(8,791,777)	\$ (56,403)

	Share Capital		Share-based payments reserves	Deficit	Total Shareholders' Equity
	Number of Shares	Value			
Balance, June 30, 2016	87,083,788	\$12,283,087	\$3,852,924	\$(10,193,041)	\$5,942,970
Comprehensive income for the period	—	—	—	2,871,970	2,871,970
Share-based compensation	—	—	(47,176)	—	(47,176)
Balance, March 31, 2017	87,083,788	\$12,283,087	\$3,805,748	\$ (7,321,071)	\$8,767,764

RUSSELL BREWERIES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS****(Unaudited; Expressed in Canadian Dollars)**

	Nine Months Ended March 31	
	2018	2017
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss) for the period	\$ (284,367)	\$ 2,871,970
Adjusted for non-cash items:		
Depreciation	–	179,657
Recognition of unearned license fee	–	(6,250)
Gain on disposition of assets	–	(3,648,791)
Share-based compensation	(4,933)	(47,176)
	(289,300)	(650,590)
Net changes in non-cash working capital items:		
Accounts receivable	1,832,750	(2,116,451)
Prepaid expenses and deposits	–	143,352
Inventories	–	1,140,360
Due to and from related parties	(6,000)	–
Accounts payable and accrued liabilities	997	(986,354)
	1,538,447	(2,469,683)
INVESTING ACTIVITIES		
Purchase/Disposition of property and equipment	–	6,479,341
Acquisition/Sale of intangible assets	–	1,435,716
	–	7,915,057
FINANCING ACTIVITIES		
Repayment of long-term debt	–	(953,900)
Return of capital	(3,047,933)	–
	(3,047,933)	(953,900)
CHANGE IN CASH AND CASH EQUIVALENTS	(1,509,486)	4,491,474
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,554,218	349,575
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 44,732	\$ 4,841,049
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ –	\$ 44,445

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 2017**

(Unaudited; Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

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 450-400 Burrard Street, Vancouver, BC V6C 3A6.

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".

As at March 31, 2018, the Company has negative working capital of \$56,403. This indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION**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 June 27, 2018.

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 2017**

(Unaudited; Expressed in Canadian Dollars)

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION (continued)**Basis of Presentation, Functional Currency and Basis of Consolidation**

The following companies have been consolidated as at December 31, 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

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

As discussed above, during the year ended June 30, 2017, the Company's FGB and RBC lines of business were sold and the results of operations for nine months ended March 31, 2018 and 2017 have been presented as discontinued operations.

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.

Any financial liabilities not expected to be repaid by the Company continue to be recognized at their carrying values until legally discharged. As at March 31, 2018, the Company lacks sufficient assets to settle all of its outstanding liabilities.

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.

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.

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 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.

The following presents the net income (loss) from discontinued operations for the nine months ended March 31, 2018 and 2017:

	Nine Months Ended March 31,	
	2018	2017
Revenue	-	3,518,918
Cost of sales	5,720	1,839,571
Gross profit	(5,720)	1,679,347
Expenses		
Depreciation	-	26,359
Other expense (income)	62,978	1,592,171
	62,978	1,618,530
Income (loss) from operating activities of discontinued operations	(68,698)	60,817
Net Income (loss) from discontinued operations	(37,763)	3,671,413
Cash flow from (used in) disposal assets		
Operating activities	1,538,447	(1,607,080)
Investing activities	-	7,915,057
Financing activities	(3,047,933)	(953,900)

For FGB, during the period that ended March 31, 2018, the Company received \$1,122,482 of the asset sales consideration, including General Liability Holdback and interest payment in the amount of \$1,035,357, and working capital adjustment in the amount of \$87,125. As of March 31, 2018, the balance of outstanding asset sales consideration is \$nil.

For RBC, during the period that ended March 31, 2018, the Company received \$716,000 of the asset

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 2017**

(Unaudited; Expressed in Canadian Dollars)

sales consideration, including of outstanding proceeds in the amount of \$480,000, and General Liability Holdback and interest payment in the amount \$236,000. As of March 31, 2018, the balance of outstanding asset sales consideration is \$nil.

5. SHARE CAPITAL**Authorized Share Capital**

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

Issued Share Capital

There was no change in number of outstanding shares during the nine months ended March 31, 2018 and 2017.

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.

On January 5, 2018, the Company declared a second return of capital of \$0.035 per common share to those shareholders of record at the close of business on January 17, 2017, for a total distribution of \$3,047,932. The payment was made on January 26, 2018.

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%.

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 2017**

(Unaudited; Expressed in Canadian Dollars)

SHARE CAPITAL (continued)

During the period ended March 31, 2018, the Company recorded \$(4,933) (2017 - \$(47,176)) compensation cost included in selling, general and administrative expense relating to these options.

Stock option activity during the period ended March 31, 2018 and the year ended June 30, 2017 is presented below:

	March 31, 2018		June 30, 2017	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	3,600,000	\$ 0.07	4,400,000	\$ 0.07
Exercised	(988,625)			
Expired	—	—	(50,000)	—
Forfeited	(2,611,375)	—	(750,000)	—
Outstanding,	—	\$ —	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 above, 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 distribution to the stock option holders was \$52,875, \$4,933 less than the amount previously estimated. This amount has reduced share-based compensation included in general and administrative expenses in the condensed consolidated interim statement of comprehensive income (loss).

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 2017**

(Unaudited; Expressed in Canadian Dollars)

6. 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:

	Nine Months Ended March 31	
	2018	2017
Short-term benefits:		
Salaries and management fees	\$ 62,644	\$ 156,708
Directors fees	15,416	30,154
Share-based payments	—	(47,176)
	\$ 78,060	\$ 139,686

During the period ended March 31, 2018, the Company incurred management fees to a company controlled by the CEO in the amount of \$62,644 (2017 - \$84,993) and salaries and benefits to the CFO in the amount of \$nil (2016 – \$71,715).

During the period ended March 31, 2018, the Company incurred director fees of \$15,416 (2017 - \$30,154).

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.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 2017**

(Unaudited; Expressed in Canadian Dollars)

7. 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 March 31, 2018 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 March 31, 2018 \$
Assets:				
Cash and cash equivalents	44,732	—	—	44,732

RUSSELL BREWERIES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018 AND 2017**

(Unaudited; Expressed in Canadian Dollars)

FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS (continued)**(c) 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 March 31, 2018 in the amount of \$107,872 are all due within one year.

As at March 31, 2018, the Company had a working capital deficit of \$(56,403).