

**RUSSELL BREWERIES INC.**  
**Management's Discussion and Analysis**  
**For the nine months ended March 31, 2018**

This Management's Discussion and Analysis ("MD&A") of Russell Breweries Inc. ("Russell" or the "Company") dated June 27, 2018 provides an analysis of its results of operation and financial condition for the nine months ended March 31, 2018. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements, and accompanying notes for the nine months ended March 31, 2018 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](http://www.sedar.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 June 27, 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 purchasers, 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.

The Company will investigate new business opportunities. At this time no new acquisitions have been identified, and there is no assurance that any new business opportunities will be identified or closed.

**BUSINESS DEVELOPMENTS AND SIGNIFICANT EVENTS**

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

On May 16, 2017, the Company finalized 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 \$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.

On January 26, 2018, the Company completed a final cash distribution by way of a return of capital in the amount of \$0.035 per Russell common share.

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**GOING CONCERN**

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 were 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. The Company is investigating new business opportunities.

The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future. At March 31, 2018, the Company assets are comprised of cash and miscellaneous receivables.

**SELECTED INFORMATION**

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

Selected Information	Nine months ended March 31	
	2018 \$	2017 \$
<b>Statement of Comprehensive Income Data</b>		
Net Revenue (after Excise Tax and provincial mark-up)	—	—
Expenses	246,604	799,443
Loss before discontinued operations	(246,604)	(799,443)
Total income (loss) from discontinued operations	(37,763)	3,671,413
Net income (loss) and comprehensive income (loss)	(284,367)	2,871,970
Basic and diluted earnings per share		
Continuing operations	(0.00)	(0.01)
Discontinuing operations	(0.00)	0.04
<b>Statement of Financial Position Data</b>		
Total assets	51,466	8,884,600
Total long term financial liabilities	—	—

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**PERFORMANCE AND RESULTS**

***Three and Nine Months Ended March 31, 2018***

The decrease in net income and comprehensive income is due to the Company disposing of substantially all its assets, ceasing operations, and distributing the proceeds of the asset sales to the shareholders as a return of capital.

**Summary of Quarterly Results**

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

<b>Fiscal Year Quarter</b>	<b>2018F Q3</b>	<b>2018F Q2</b>	<b>2018F Q1</b>	<b>2017F Q4</b>	<b>2017F Q3</b>	<b>2017F Q2</b>	<b>2017F Q1</b>	<b>2016F Q4</b>
(in \$000, except per share amounts)	\$	\$	\$	\$	\$	\$	\$	\$
Net revenues	-	-	-	(111)	56	1,235	2,229	2,066
Net Income (loss) before discontinued operations	(39)	(122)	(86)	306	(214)	(502)	(91)	88
Net income (loss)	(54)	(116)	(114)	(1,186)	3	2,557	312	(392)
Net earnings (loss) per share – basic and diluted:								
Continuing operations	(0.00)	(0.00)	(0.00)	0.00	(0.00)	(0.01)	(0.00)	0.00
Discontinuing operations	(0.00)	(0.00)	(0.00)	(0.02)	0.00	0.04	0.00	(0.01)

**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 ending March 31, 2018, 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 March 31, 2018, 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 ending March 31, 2018, the Company received final payments including remaining proceeds, General Liability Holdback and interest payment in the amount of \$716,000. As of March 31, 2018, the balance of outstanding asset sales consideration is \$nil.

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**LIQUIDITY AND CAPITAL RESOURCES**

**Financial Condition**

As at March 31, 2018, the Company had a working capital deficiency of \$(56,403). The Company has \$44,732 of cash. Current liabilities are \$107,869 which includes \$97,869 of accounts payable and \$10,000 accrued liabilities.

**Cash Flow**

***Nine Months Ended March 31, 2018***

Cash provided by operating activities was \$1,538,447 compared to cash used of \$2,469,683 in the comparable period 2017. No cash was provided by investing activities compared to cash provided of \$7,915,057 in the prior fiscal year.

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 2018. The decrease in cash provided by investing activities was due to disposal of substantially all assets related to the two operating businesses of the Company with the Fort Garry Sale and the Russell Sale in 2017.

**Capital Management**

The Company manages its capital structure in order to ensure sufficient resources are available to meet operational requirements.

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**Outstanding Share Data**

As at March 31, 2018, the Company had 87,083,788 common shares issued and outstanding and no stock options issued.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**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:

	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)
	<b>\$ 78,060</b>	<b>\$ 139,686</b>

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.

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**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.

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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:

	<b>Fair Value Measurements Using</b>			
	<b>Quoted Prices in Active Markets For Identical Instruments (Level 1) \$</b>	<b>Significant Other Observable Inputs (Level 2) \$</b>	<b>Significant Unobservable Inputs (Level 3) \$</b>	<b>Balance as of March 31, 2018 \$</b>
Assets:				
Cash and cash equivalents	44,732	—	—	44,732