

RUSSELL BREWERIES INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Russell Breweries Inc.

We have audited the accompanying consolidated financial statements of Russell Breweries Inc. which comprise the consolidated statements of financial position as at June 30, 2018 and 2017, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained based on our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Russell Breweries Inc. as at June 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Russell Breweries Inc. to continue as a going concern.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
October 29, 2018

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

	2018	2017
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	35,287	1,554,218
Accounts receivable-asset sales consideration (Note 5)	-	1,803,102
Accounts receivable-other	9,961	36,382
Prepaid expenses	5,850	-
	51,098	3,393,702
LIABILITIES		
Current		
Accounts payable and accrued liabilities	128,750	51,805
Accrued distribution payable to option holders	-	60,000
Due to related parties (Note 8)	-	6,000
	128,750	117,805
SHAREHOLDERS' (DEFICIT) EQUITY		
SHARE CAPITAL (Note 6)	4,880,885	7,928,818
SHARE-BASED PAYMENTS RESERVES	3,854,489	3,854,489
DEFICIT	(8,813,026)	(8,507,410)
	(77,652)	3,275,897
	51,098	3,393,702

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

Approved and authorized for issuance on behalf of the Board of Directors on October 29, 2018:

"Hugh Notman"

"Norman Yurik"

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

RUSSELL BREWERIES INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****FOR THE YEARS ENDED JUNE 30, 2018 and 2017****(Expressed in Canadian Dollars)**

	2018	2017
	\$	\$
EXPENSES		
Depreciation	–	1,394
General and administrative (Note 11)	274,054	635,064
	274,054	636,458
LOSS BEFORE OTHER INCOME (EXPENSE)	(274,054)	(636,458)
OTHER INCOME (EXPENSE)		
Other income	11,353	168,497
Interest on long-term debt	–	(33,265)
	11,353	135,232
LOSS FROM CONTINUING OPERATIONS	(262,701)	(501,226)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (NOTE 5)	(42,915)	2,186,857
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(305,616)	1,685,631
EARNINGS (LOSS) PER SHARE – basic and diluted		
Continuing operations	(0.00)	(0.01)
Discontinuing operations	(0.00)	0.03
Weighted average number of shares outstanding – basic and diluted	87,083,788	87,083,788

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

RUSSELL BREWERIES INC.**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****(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
Return of capital (Note 6)	—	(3,047,933)	—	—	(3,047,933)
Comprehensive loss	—	—	—	(305,616)	(305,616)
Balance, June 30, 2018	87,083,788	4,880,885	3,854,489	(8,813,026)	(77,652)

	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
Return of capital	—	(4,354,269)	—	—	(4,354,269)
Comprehensive income	—	—	—	1,685,631	1,685,631
Share-based compensation	—	—	1,565	—	1,565
Balance, June 30, 2017	87,083,788	7,928,818	3,854,489	(8,507,410)	3,275,897

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

	2018	2017
	\$	\$
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss) for the period	(305,616)	1,685,631
Adjusted for non-cash items:		
Deferred income tax expense (recovery)	-	1,045,000
Depreciation	-	171,176
Accrued interest	-	(58,007)
Recognition of unearned license fee	-	(6,250)
Share based compensation	-	61,565
Gain on disposition of assets	-	(3,344,493)
	(305,616)	(445,378)
Net changes in non-cash working capital items:		
Amounts receivable	26,421	(285,183)
Short term investments	-	108,010
Prepaid expenses and deposits	(5,850)	67,845
Inventories	-	(14,386)
Due to and from related parties	(6,000)	(5,183)
Accounts payable and accrued liabilities	16,945	(730,629)
	(274,100)	(1,304,904)
INVESTING ACTIVITIES		
Purchase of property and equipment	-	(36,708)
Proceeds on sale of disposal groups, net of transaction costs	1,803,102	7,856,700
Acquisition of intangible assets	-	(2,276)
	1,803,102	7,817,716
FINANCING ACTIVITIES		
Return of capital	(3,047,933)	(4,354,269)
Repayment of long-term debt	-	(953,900)
	(3,047,933)	(5,308,169)
CHANGE IN CASH AND CASH EQUIVALENTS	(1,518,931)	1,204,643
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,554,218	349,575
CASH AND CASH EQUIVALENTS, END OF YEAR	35,287	1,544,218
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	-	44,445
Cash received for interest	38,265	
Cash and cash equivalents consist of:		
Demand deposits	35,287	266,208
Term deposits	-	1,288,010
	35,287	1,554,218

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

RUSSELL BREWERIES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JUNE, 2018 and 2017**

(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 is located at 450-400 Burrard Street, Vancouver, BC, V6C 3A6.

During the year ended June 30, 2017, the Company completed two separate asset sale transactions to sell 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 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"). Subsequent to the disposals the Company changed the name of Fort Garry Brewing Company Ltd. to 6951946 Manitoba Ltd.

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 continues to be listed under TSX Venture Exchange NEX Board under the symbol "RB.H".

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 Company has a history of significant losses, sizeable accumulated deficits and working capital deficits. These factors form a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on completing equity financings, obtaining support from related parties or generating consistent 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**a) Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

The following companies have been consolidated as at June 30, 2018:

Company Name	Registered	Holding	Functional Currency
Russell Breweries Inc.	British Columbia	Parent Company	Canadian Dollar
6951946 Manitoba Ltd.	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 consolidated 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 years ended June 30, 2018 and 2017 have been presented as discontinued operations (see Note 5).

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION**c) Basis of Measurement**

The consolidated financial statements have been prepared on the historical cost basis for the year ended June 30, 2018 and the liquidation basis of accounting for the year ended June 30, 2017. During the year ended June 30, 2017, as a result of the Fort Garry Sale and the Russell Sale, management expected to distribute the remaining net assets to the Company's shareholders and stock option holders and wind-up operations. However, during the year ended June 30, 2018, a change of management occurred and new management intended to operate the Company as a going concern rather than wind-up operations.

Under the liquidation basis of accounting, the financial assets and liabilities reflected on the statement of financial position as at June 30, 2017 continued to be recognized under the applicable IFRS. If the carrying value of the financial asset exceeded the net realizable value, an impairment charge was recognized in the statement of comprehensive loss. As at June 30, 2017, the Company's assets were comprised primarily of cash and receivables from the two transactions. Any financial liabilities not expected to be repaid by the Company were to be recognized at their carrying values until legally discharged.

d) Significant Accounting Estimates and Judgments

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

(i) Significant Judgements**Discontinued Operations**

Judgement is required in determining whether the disposals meet the criteria of discontinued operations as well as the classification of income, expense and cash flows from continuing or discontinued operations.

(ii) Significant Estimates

Significant areas requiring the use of management estimates include valuation and collectability of accounts receivable, valuation of share based payments and stock options, valuation of deferred income tax assets, liabilities and tax rates. Actual results could differ from the estimates made.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with IFRS and reflect management's consideration of the following significant accounting policies:

(a) Financial Instruments**(i) Cash and Cash Equivalents**

Cash and cash equivalents are designated as fair value through profit or loss ("FVTPL") and include cash on account, demand deposits and money market investments with maturity days of 90 days or less which are readily convertible to known amounts of cash and are not subject to significant changes in value.

(ii) Accounts Receivables and Payables

Amounts receivable and payables are non-interest bearing and stated at carrying values, which approximate fair values due to their short terms to maturity. Where necessary, trade receivables include allowances for uncollectible amounts. Accounts receivables are designated as loans and receivables, and payables are designated as other financial liabilities.

(b) Share-based Compensation

The Company uses the fair value based method of accounting for share based compensation for all awards of shares and share options granted.

The fair value, using the Black-Scholes option pricing model, of options granted to executive officers, directors, employees and consultants is recognized as an expense with a corresponding increase in equity. Where share options are given to employees, who are defined as employees for legal or tax purposes, the fair value is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. At each financial reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Where options are granted to non-employees, they are recorded at the fair value of the goods or services provided, unless the fair value cannot be reasonably estimated, in which case they are recorded at the fair value of the equity instruments granted.

(c) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, measured using the substantively enacted tax rates which apply when these differences are expected to reverse. Deferred tax assets are recognized for all deductible temporary differences and tax loss and tax credit carry-forwards to the extent that it is probable that taxable profit will be available to utilize them.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the statement of financial position date that are expected to apply to the year when the asset is realized or liability is settled.

(d) Earnings (loss) per Share

Basic earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of "in the money" stock options, warrants and agent warrants and unit options.

4. ADOPTION OF NEW ACCOUNTING STANDARDS**(a) Newly Adopted Accounting Standards**

During the year ended June 30, 2018 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. Updates that are not applicable or consequential to the Company have been excluded from the following list.

IFRS 9 Financial Instruments (Revised) was issued by the IASB in October 2010. It incorporates revised requirements for the classification and measurement of financial liabilities and carrying over the existing derecognition requirements from IAS 39 Financial instruments: recognition and measurement. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 on the Company's consolidated financial statements has not yet been determined.

IFRS 16 Leases will replace IAS 17, Leases. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts, and to record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 on the Company's consolidated financial statements has not yet been determined.

5. 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 respectively.

These sales comprise the only operating segment in the Company and are presented as discontinued operations. The consolidated 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.

RUSSELL BREWERIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE, 2018 and 2017
(Expressed in Canadian Dollars)

5. FORT GARRY SALE AND RUSSELL SALE (continued)

The following presents the net income (loss) from discontinued operations for the years ended June 30, 2018 and 2017:

	2018	2017
	\$	\$
Revenue	-	3,408,119
Cost of sales	-	1,797,473
Gross profit	-	1,610,646
Expenses		
Depreciation	-	16,484
Selling, general and administration	-	1,615,715
Other expense (income)	36,070	91,088
	(36,070)	1,723,287
Income (loss) from operating activities of discontinued operations	(36,070)	(112,641)
Gain (loss) on sale of discontinued operations before tax	(6,845)	3,344,498
Deferred income tax expense	-	(1,045,000)
Gain (loss) on sale of discontinued operations	(6,845)	2,299,498
Net Income (loss) from discontinued operations	(42,915)	2,186,857
Cash flow from (used in) disposal assets		
Operating activities	(42,915)	(616,891)
Investing activities	1,803,102	7,855,776
Financing activities	-	(7,214,272)
Cost of Sales		
Cash-inventories	-	1,644,175
Non cash-depreciation	-	153,298
	-	1,797,473

During the year ended June 30, 2018 the Company received \$1,091,827 of the asset sales consideration in connection with the sale of FGB assets, including General Liability Holdback and interest payment in the amount of \$1,000,000, working capital adjustment in the amount of \$87,125 and interest of \$4,702.

The Company also received \$711,275 of the asset sales consideration in connection with the sale of RBC assets, including outstanding proceeds in the amount of \$480,000, and General Liability Holdback and interest payment in the amount \$231,275.

As of June 30, 2018 there is no outstanding asset sales consideration outstanding for either transaction.

RUSSELL BREWERIES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JUNE, 2018 and 2017**

(Expressed in Canadian Dollars)

6. 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 were no common shares issued during the years ended June 30, 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 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 Company estimated the amount of the distribution would be \$60,000. For the year ending June 30, 2017 amount was recorded as a current liability in the consolidated statement of financial position and share based compensation in the statement of comprehensive income.

During the year ended June 30, 2018, the Company paid \$52,875 to the stock option holders as a cancellation price of those options. The Company recorded a gain of \$4,933 on the settlement of the distribution to the stock option holders, calculated as the difference between the amount accrued (estimated) and the amount paid out \$4,933 less than the amount estimated. This amount has reduced share based compensation included in general and administrative expenses in the consolidated statement of comprehensive loss.

During the year ended June 30, 2017, the Company recorded a share-based payment expense of \$61,565, which is included in general and administrative expense.

RUSSELL BREWERIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE, 2018 and 2017
(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

The following presents the stock option activity:

	2018		2017	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	3,600,000	\$ 0.07	4,400,000	\$ 0.07
Expired	—	—	(50,000)	—
Cancelled	(3,525,000)	—	—	—
Forfeited	(75,000)	—	(750,000)	—
Outstanding, end of year	—	—	3,600,000	\$ 0.07

7. INCOME TAXES

(a) Deferred Tax assets and Liabilities

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2018	2017
	\$	\$
Deferred tax assets (liabilities):		
Non-capital losses carried forward	2,211,000	2,047,000
Tax value of capital losses carried forward	14,000	14,000
Share and long term debt issue costs available for tax deduction	-	4,000
	2,225,000	2,065,000
Unrecognized deferred tax assets	(2,225,000)	(2,065,000)
Net deferred tax assets	-	-

RUSSELL BREWERIES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JUNE, 2018 and 2017**

(Expressed in Canadian Dollars)

7. INCOME TAXES (continued)**(b) Non-Capital Losses Carried forward and Expiry Dates**

The Company has non-capital losses of approximately \$8,188,000 (2017- \$7,873,000) which may be carried forward to apply against future years income tax for Canadian income tax purposes, subject to final determination by taxation authorities, and expiring as follows:

Year expires	\$
2026	56,000
2027	187,000
2028	448,000
2029	468,000
2030	441,000
2031	1,496,000
2032	1,150,000
2033	722,000
2034	765,000
2035	828,000
2036	873,000
2037	439,000
2038	315,000
	<u>8,188,000</u>

(c) Income Tax Recovery (Expense)

Income tax recovery (expense) is as follows:

	2018	2017
	\$	\$
Current income tax recovery (expense)	-	-
Deferred income tax recovery (expense)	-	(1,045,000)
Total income tax recovery (expense)	-	<u>(1,045,000)</u>

(d) Reconciliation of Tax Rates

The Company is subject to Canadian federal and provincial taxes at an approximate rate of 26% for the year ended June 30, 2018 (2017- 26%). The reconciliation of the provision for income taxes at the statutory rate compared to the Company's income tax recovery (expense) is as follows:

	2018	2017
	\$	\$
Loss (income) before income taxes	305,616	(2,730,631)
Statutory tax rate	26%	26%
Expected income tax recovery (expense) at statutory rates	79,460	(710,000)
Permanent differences	(1,200)	176,000
Differences between current and future rates	81,740	-
Change in unrecognized deferred tax assets	(160,000)	(511,000)
Income tax recovery (expense)	-	<u>(1,045,000)</u>

RUSSELL BREWERIES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JUNE, 2018 and 2017**(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS AND BALANCES

The compensation costs for key management personnel, identified as directors and certain key management personnel and companies related to them, were recorded at their exchange amounts in the normal course of operations as agreed upon by transacting parties as follows:

	2018	2017
	\$	\$
Short-term benefits:		
Salaries and management fees	62,644	178,516
Directors fees	16,602	36,154
Share-based payments	-	1,565
	79,246	216,235

During the year ended June 30, 2018, the Company incurred management fees to a company controlled by the CEO in the amount of \$62,644 (2017-\$106,801) and salaries and benefits to the CFO in the amount of \$Nil (2017 – \$71,715).

During the year ended June 30, 2018, the Company incurred director fees of \$16,602 (2017-\$36,154). There are no unpaid amounts owing at June 30, 2018.

At June 30, 2018, \$2,217 was owing to the Company's CEO for expense reimbursements. This amount is non-interest bearing and has no specific terms of repayment.

9. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS**(a) Fair Values of Financial Instruments**

The carrying values of cash and cash equivalents, accounts receivable and accounts payable 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 consolidated statement of financial position as follows:

RUSSELL BREWERIES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JUNE, 2018 and 2017**

(Expressed in Canadian Dollars)

**9. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENTS AND FINANCIAL RISKS
(continued)****(b) Fair Value Measurements (continued)**

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, 2018 \$
Assets:				
Cash and cash equivalents	35,287	—	—	35,287

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

(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.

At June 30, 2018, the Company had a working capital deficit of \$77,652 (See Note 1).

(d) 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.

10. CAPITAL MANAGEMENT

The goal of the Company is to maximize the return of capital to its shareholders. Management considers long term debt and shareholders' equity as capital. The Company's principal source of capital is from the issuance of common shares. The Company's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital funding to be able to continue operations.

RUSSELL BREWERIES INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED JUNE, 2018 and 2017**

(Expressed in Canadian Dollars)

11. EMPLOYEE BENEFITS

During the year ended June 30, 2018 the Company incurred \$Nil employee benefits. During the year ended June 30, 2017 the Company incurred \$998,410 employee benefits, of which \$572,118 was included in selling, general and administration expenses and \$426,292 in cost of sales.