

Golden West Brewing Company, Inc.  
Form 10-Q  
August 14, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2008

**OR**

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
EXCHANGE ACT**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-51808

**GOLDEN WEST BREWING COMPANY, INC.**  
(Exact Name of Small Business Issuer as Specified in its Charter)

Delaware  
(State or other jurisdiction  
of incorporation or  
organization)

90-0158978  
I.R.S. Employer  
Identification number

945 West 2<sup>nd</sup> Street, Chico, CA 95928  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (530) 894-7906

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Former name, former address, and former fiscal year, if changed since last report

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the last 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

As of August 14, 2008, the Registrant had 3,370,000 shares of its Common Stock outstanding.

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## **PART 1. FINANCIAL INFORMATION**

### **Item 1.**

#### **Financial Statements**

The consolidated financial statements included herein have been prepared by Golden West Brewing Company, Inc. (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such SEC rules and regulations. In the opinion of management of the Company the accompanying statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2008 and December 31, 2007, and its results of operations for the three month and six month periods ended June 30, 2008 and 2007 and its cash flows for the six month periods ended June 30, 2008 and 2007 and the statement of stockholders' deficit as of June 30, 2008. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto filed as a part of the Company's annual report on Form 10-KSB.

*GOLDEN WEST BREWING COMPANY AND SUBSIDIARY***CONSOLIDATED BALANCE SHEET AS OF**

	(Unaudited)	
Current Assets:	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Cash and cash equivalents	\$ 652	\$ 4,684
Accounts receivable, net of allowance for doubtful accounts of		
\$23,876 and 23,849 at June 30, 2008 and December 31, 2007	226,913	184,014
respectively		
Inventory (Note 1)	114,385	197,871
Prepaid Expenses	<u>12,600</u>	<u>6,369</u>
Total current assets	354,550	392,938
Fixed Assets:		
Property and equipment net of accumulated depreciation of \$79,055		
and \$63,134 at June 30, 2008 and December 31, 2007	268,009	277,526
, respectively (Note 1)		
Other Assets:		
Intangibles, net of accumulated amortization of \$15,511 and \$12,339		
at June 30, 2008 and December 31, 2007, respectively	20,416	23,588
Deferred financing costs, net of accumulated amortization of		
\$89,383 and \$2,456 at June 30, 2008 and December 31, 2007		
respectively.	104,677	92,814
Other assets	<u>16,221</u>	<u>14,731</u>

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Total other assets	<u>141,314</u>	<u>131,133</u>
Total Assets	<u>\$ 763,873</u>	<u>\$ 801,597</u>

LIABILITIES AND STOCKHOLDERS DEFICIT

Current Liabilities:

Accounts payable	\$410,657	\$309,887
Accrued expenses	234,413	188,175
Checks issued in excess of funds available	19,309	46,022
Lines of credit payable (Note 2)	32,133	32,602
Advances related parties	9,000	12,744
Notes payable other, current portion (Note 2)	70,072	62,664
Notes payable related party, current portion (Note 2)	<u>1,051,054</u>	<u>161,054</u>
Total current liabilities	1,826,638	813,148

Long-term liabilities:

Note payable related party, net of current portion (Note 2)	<u>-</u>	<u>725,000</u>
Total long-term liabilities	-	725,000
Total Liabilities	1,826,638	1,538,148

Commitments and Contingencies (Notes 1,2,3,4, 5, 6,7, 8, 9 and 10)

Stockholders Deficit:

Preferred Stock, \$.0001 par value, 5,000,000 shares authorized,

300,000 shares issued and outstanding as of

June 30, 2008 and December 31, 2007	30	30
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Common stock, \$.0001 par value, 20,000,000 shares authorized,

3,368,500 and 3,335,000 shares issued and outstanding

as of June 30, 2008 and December 31, 2007 , respectively	337	334
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Additional paid-in capital	1,593,898	1,485,033
Accumulated (deficit)	<u>(2,657,030)</u>	<u>(2,221,948)</u>
Total Stockholders Deficit	<u>(1,062,765)</u>	<u>(736,551)</u>
Total Liabilities and Stockholders Deficit	<u>\$ 763,873</u>	<u>\$ 801,597</u>





**GOLDEN WEST BREWING COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	For the three months ended June 30,		For the six months ended June 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues	\$ 373,390	\$ 348,757	\$ 725,490	\$ 660,439
Less: Excise taxes	<u>(14,026)</u>	<u>(12,533)</u>	<u>(26,344)</u>	<u>(27,367)</u>
Net revenues	359,364	336,224	699,146	633,072
 Cost of sales	 <u>325,764</u>	 <u>270,747</u>	 <u>572,136</u>	 <u>499,536</u>
Gross profit	<u>33,600</u>	<u>65,477</u>	<u>127,010</u>	<u>133,536</u>
 Operating expenses:				
Depreciation and amortization	57,636	8,341	105,882	16,972
Legal and accounting	46,133	36,390	65,714	56,583
Management compensation	24,088	30,501	59,674	54,751
Rent	11,178	11,178	22,356	22,356
Stock-based compensation	3,338	13,927	6,676	22,404
Selling expenses	29,907	32,855	64,449	59,349
Other	<u>85,680</u>	<u>64,727</u>	<u>170,580</u>	<u>138,518</u>
Total operating expenses	<u>257,960</u>	<u>197,919</u>	<u>495,331</u>	<u>370,933</u>
 Operating (Loss)	 <u>(224,360)</u>	 <u>(132,442)</u>	 <u>(368,321)</u>	 <u>(237,397)</u>
 Other Income (Expense):				
Miscellaneous income	144	801	210	1,233
Equipment Sales - Net	-	-	-	1,612

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Loan Fees	(1,750)	-	(10,750)	-
Interest expense	(29,359)	(33,255)	(56,221)	(52,915)
Stock Warrant	<u>-</u>	<u>-</u>	<u>-</u>	<u>(122,869)</u>
Financing Cost				
Total other (expense)	<u>(30,965)</u>	<u>(32,454)</u>	<u>(66,761)</u>	<u>(172,939)</u>
Net (Loss)	\$ (255,325)	\$ (164,896)	\$ (435,082)	\$ (410,336)
Preferred dividends	<u>6,674</u>	<u>-</u>	<u>13,348</u>	<u>-</u>
Net Loss attributable to common shareholders	<u>260,999</u>	<u>(164,896)</u>	<u>(447,430)</u>	<u>(410,336)</u>
Net Loss per share	<u>\$ (.08)</u>	<u>\$ (.06)</u>	<u>\$ (.13)</u>	<u>\$ (.15)</u>
Weighted Average Shares				
Outstanding	<u>3,360,912</u>	<u>2,818,000</u>	<u>3,360,912</u>	<u>2,818,000</u>

***GOLDEN WEST BREWING COMPANY, INC. AND SUBSIDIARY***  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT**  
**JUNE 30, 2008 (UNAUDITED)**

	Preferred Stock		Common Stock		Additional		<u>Totals</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-In Capital</u>	<u>Accumulated (Deficit)</u>	
Balance, December 31, 2006			2,418,000	241	594,845	(1,220,385)	(625,299)
Stock issued for cash at \$0.35, March, 2007			400,000	40	129,385		129,425
Stock purchase warrants issued in financing, March, 2007					122,869		122,869
Stock issued for cash at \$0.33, July, 2007			282,000	28	93,032		93,060
Stock issued for cash at \$0.50, September, 2007			100,000	10	49,990		50,000
Advances converted to Preferred Stock at \$0.75, September, 2007	300,000	30			224,970		225,000
Advance and accrued interest converted to stock, September, 2007			15,000	2	9,973		9,975
Paid-in capital related to common stock					10,000		10,000
previously subject to rescission							
Shares issued for investor relations at \$1.10, September, 2007			100,000	10	109,990		110,000
Shares issued for loan fees at \$0.70, December, 2007			15,000	2	10,498		10,500
Shares issued for compensation at \$0.60, December, 2007			5,000	1	2,999		3,000
Stock-based compensation options					37,886		37,886
Deferred financing costs on line of credit					95,270		95,270
Dividends on Preferred Stock					(6,674)		(6,674)

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Net (Loss) before net dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,001,563)</u>	<u>(1,001,563)</u>
Balance, December 31, 2007	300,000	30	3,335,000	334	1,485,033	(2,221,948)	(736,551)
Shares issued for compensation at \$0.50, March, 2008			6,000	1	2,999		3,000
Shares issued for loan fees at \$0.50, March, 2008			18,000	1	8,999		9,000
Deferred financing costs on line of credit for three months ended March 31, 2008					80,960		80,960
Shares issued for compensation at \$0.50, June, 2008			6,000	1	2,999		3,000
Shares issued for loan fees at \$0.50, June, 2008			3,500		1,750		1,750
Stock-based compensation options					6,676		6,676
Deferred financing costs on line of credit for three months ended June 30, 2008					17,830		17,830
Dividends on Preferred Stock for six months ended June 30, 2008					(13,348)		(13,348)
Net (Loss) before net dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(435,082)</u>	<u>(435,082)</u>
Balance, June 30, 2008	300,000	30	3,368,500	337	1,593,898	(2,657,030)	(1,062,765)

**GOLDEN WEST BREWING COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30**  
(Unaudited)

	<u>2008</u>	<u>2007</u>
<b>Cash Flows from Operating Activities:</b>		
Net loss attributable to common shareholders	\$ (435,082)	\$ (410,336)
Adjustments to reconcile net loss to net cash used		
in operating activities:		
Depreciation	15,782	14,218
Amortization of intangibles	90,100	2,754
Stock financing costs and loan fees	10,750	122,869
Preferred stock dividends	13,348	-
Stock Option compensation	<u>6,676</u>	<u>22,404</u>
	136,656	162,245
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts Receivable	(42,899)	(80,025)
Inventories	83,486	46,423
Prepaid expenses and other receivables	(6,231)	3,364
Increase (decrease) in:		
Checks written in excess of funds available	(26,713)	(6,341)
Accounts payable	100,770	57,669
Accrued Expenses	<u>46,238</u>	<u>15,550</u>
	154,651	36,640
Net cash (used in) operating activities	<u>(143,775)</u>	<u>(211,451)</u>
<b>Cash Flows from Investing Activities:</b>		
Equipment deposits		
Net Investment in fixed assets	(6,265)	(49,009)
Investment in intangibles and other assets	(38,937)	(19,782)

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Advances to related company	<u>-</u>	<u>(40,000)</u>
Net cash (used in) investing activities	<u>(45,202)</u>	<u>(108,791)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from Paid-In Capital	16,750	129,425
Net Increase in Advances and Notes Payable	<u>168,195</u>	<u>194,239</u>
Net cash provided by financing activities	<u>184,945</u>	<u>323,664</u>
<b>Decrease in Cash and Cash Equivalents</b>	(4,032)	3,422
<b>Cash and Cash Equivalents</b> , beginning of period	<u>4,684</u>	<u>344</u>
<b>Cash and Cash Equivalents</b> , end of period	\$ 652	\$ 3,766
<b>Supplemental Schedule of Cash Flow Information:</b>		
Cash paid for interest	\$ 56,221	\$ 52,915

GOLDEN WEST BREWING COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

**1. Nature of Business and Significant Accounting Policies:**

This summary of significant accounting policies of is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States of America and have been consistently applied in preparation of the financial statements. The Company has selected December 31 as its year end.

Description of Business - Golden West Brewing Company, Inc., a Delaware Corporation, and its wholly-owned California subsidiary Golden West Brewing Company (hereinafter referred to as The Company on a consolidated basis) were formed in 2003 for the purpose of acquiring the assets of Butte Creek Brewing Company, LLC ("Butte Creek"). The acquisition of Butte Creek was completed on August 31, 2005. In June 2008, we formed a new wholly-owned subsidiary in Washington: Golden West Brewing, Inc. This new subsidiary is inactive and has not commenced any operations but is included in our consolidated statements.

In the opinion of management of the Company the accompanying statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2008 and December 31, 2007 , and its results of operations for the three and six month periods ended June 30, 2008 and 2007 and its cash flows for the three and six month periods ended June 30, 2008 and 2007 and the statement of stockholder s deficit as of June 30, 2008. The accompanying financial statements should be read in conjunction with the notes thereto filed as a part of the Company's annual report on Form 10-QSB. All inter-company account balances and transactions are eliminated in consolidation.

Accounts Receivable - Accounts receivable are reported at net realizable value. The Company has established an allowance for doubtful accounts based on factors pertaining to the credit risk of specific customers, historical trends and other information. Delinquent accounts are written-off when it is determined that the amounts are uncollectible.

Inventory - Inventory is stated at the lower-of-average cost or market computed on a first-in first-out basis. Inventory values as of June 30, 2008 and December 31, 2007 are classified as follows:

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<u>Inventory Class</u>	<u>June 30, 2008</u>	<u>December 31,</u> <u>2007</u>
Finished Product	\$18,149	\$ 83,338
Manufacturing Materials	85,398	92,451
Goods in Process	9,450	22,082
Advertising Materials	1,388	-
Total	\$114,385	\$ 197,871



## GOLDEN WEST BREWING COMPANY AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

Fixed Assets Fixed assets are valued at historical cost less accumulated depreciation. Depreciation is computed on a straight-line basis. Fixed Assets values net of accumulated depreciation as of June 30, 2008 and December 31, 2007 are classified as follows:

<u>Fixed Asset Class</u>	<u>Life</u>	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Manufacturing equipment	5-15 yrs	\$ 239,908	\$ 246,983
Draft equipment and kegs	5 yrs	9,066	10,950
Vehicles	5 yrs	1,578	1,942
Computers and lab equipment	5 yrs	5,128	5,807
Office furniture and fixtures	5 yrs	529	603
Leasehold improvements	30 yrs	3,020	3,235
Trademarks and domain names	n/a	<u>8,780</u>	<u>8,006</u>
Totals		\$ 268,009	\$ 277,526

Income Recognition - The Company recognizes revenues at the point of sale when title to the product changes hands to the buyer.

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The actual results could differ from those estimates. The Company's financial statements are based upon a number of significant estimates including the allowance for doubtful accounts. Due to the uncertainties inherent in the estimation process, it is at least reasonably possible that the estimates for these items could be further revised in the near term and such revisions could be material.

Financial Instruments - The Company discloses fair value information about financial instruments when it is practicable to estimate that value. The carrying value of the Company's cash, cash equivalents, and accounts payable approximate their estimated fair values due to their short-term maturities.

Concentrations of Credit Risk - Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and advances. At June 30, 2008 and December 31, 2007, the Company had no amounts of cash or cash equivalents in financial institutions in excess of amounts insured by agencies of the U.S. Government.

Valuation of Long-Lived Assets - The Company evaluates the carrying value of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the projected undiscounted future cash flows are less than its carrying value. The Company measures impairment based on the amount by which the carrying value exceeds the fair market value. Fair market value is determined primarily using the projected cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Income Taxes - The Company recognizes deferred tax assets and liabilities for temporary differences between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements, the effect of net operating losses, based upon the enacted tax rates in effect for

GOLDEN WEST BREWING COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

the year in which the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

Intangibles - Intangibles consists of trade names and trademarks. Intangibles other than goodwill are amortized using the straight-line method over the estimated useful life of the intangibles. The \$25,000 of acquired intangible assets relate to trade names and trademarks that had an expected remaining useful life of approximately five years at the time of their purchase and are being amortized over a 5-year period. Assets determined to have indefinite lives are no longer amortized in accordance with SFAS No. 142, "Goodwill and Other Intangibles," but are tested for impairment on an annual basis.

In December, 2007, the Company entered into a Credit Agreement whereby the Company was extended a line of credit by four individual lenders, including two affiliates, in the maximum principal amount of \$350,000. The Credit Agreement terminates on December 31, 2008.

The total value of advances under the credit facility which was credited to Additional paid in capital representing deferred financing fees is \$95,270 for the year ended December 31, 2007 and \$98,790 for the six months ended June 30, 2008. The deferred financing fees associated with the advances are being amortized over the lives of the advance agreements and \$2,456 was charged to the year ended December 31, 2007 and \$86,927 was charged to the six months ended June 30, 2008.

Recent Accounting Pronouncements - There were various accounting standards and interpretations issued during 2007 and 2008, none of which are expected to have a material impact on the Company's consolidated financial position, operations or cash flows.

Per Share Information - Per share information is computed by dividing the net income or loss, less accrued preferred dividends, by the weighted average number of shares outstanding during the period.

Cash and Cash Equivalents - The Company considers cash and cash equivalents to consist of cash on hand and demand deposits in banks with an initial maturity of 90 days or less.

Risks and Uncertainties - The Company is subject to substantial business risks and uncertainties inherent in starting a new business. There is no assurance that the Company will be able to generate sufficient revenues or obtain sufficient funds necessary for launching a new business venture.

Basis of Presentation - Going Concern - Generally accepted accounting principles in the United States of America contemplates the continuation of the Company as a going concern. However, the Company has sustained losses from operations, and has net working capital deficit, which raise substantial doubt about the Company's ability to continue as a going concern.

In view of these matters, realization of certain of the assets in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financial requirements, raise additional capital, and the success of its future operations.

GOLDEN WEST BREWING COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

**2. Advances and Notes Payable:**

On November 1, 2004, J. Andrew Moorer, a former Director of the Company, made an uncollateralized advance of \$8,750. The advance continued to be uncollateralized and due on demand. This advance started to accrue interest at 8% on January 1, 2006 and had accrued interest as of September 30, 2007 of \$1,225. On September 30, 2007 the balance of the advance plus accrued interest totaling \$9,975 was converted to 15,000 shares of common stock.

Between March and September 2005, the Company borrowed a total of \$125,000 from three lenders: \$50,000 in July 2005 from Power Curve, Inc. (a company controlled by John Power); \$50,000 in May 2005 from Lone Oak Vineyards, Inc. (a company controlled by Brian Power); and \$25,000 in March 2005 from Tiffany Grace, an unaffiliated party. The loans were used to pay off Butte Creek's loans to Tri County Economic Development Corporation, purchase additional equipment and provide working capital. The Tiffany Grace note, which was executed on September 9, 2005 accrues interest at the rate of 9% per annum, is payable in monthly payments of principal and interest based upon a five year amortization, and was due in full March, 2008. As of June 30, 2008, the Tiffany Grace note had current maturities of \$10,048. The Power Curve and Lone Oak notes were executed in September, 2005, accrue interest at the rate of 9% per annum, and are payable in full in 2008. The loans are collateralized by a security interest covering all of our tangible and intangible assets. As of June 30, 2008, the Power Curve and Lone Oak notes had accrued interest of \$4,500 and \$694 respectively and short-term maturities of \$50,000 and \$11,054, respectively, after the sale by of the Lone Oak Vineyards of \$25,000 of its note to an unrelated third party on September 15, 2006.

On December 30, 2005, John Power and Power Curve, Inc. converted \$215,000 and \$90,000, respectively, in outstanding advances into collateralized long-term debt. The notes bear interest at 9% and mature December 31, 2008 and are collateralized by a security interest covering all of our tangible and intangible assets but are junior to the security interest granted to Power Curve, Inc. (\$50,000), Lone Oak Vineyards, Inc. (\$25,000), Dayton Misfeldt Trust (\$25,000) and Tiffany Grace (\$25,000) in September 2005 described above. As of June 30, 2008, these notes had current maturities of \$215,000 and \$90,000 respectively and had accrued interest of \$19,350 and \$8,100 respectively.

As part of the acquisition of Butte Creek, the Company assumed an \$8,136 note payable to Bruce Detweiler, a member of Butte Creek. As of June 30, 2008 the note had accrued interest of \$4,644.

The Company has pledged substantially all of its assets to secure some of the notes. Should the Company default in the payment of these secured notes, the collateral could be subject to forfeiture.

During the twelve months ended December 31, 2006, John Power and Power Curve, Inc. made advances to the Company of \$115,000 and \$155,000, respectively. The advances were uncollateralized and due on demand. On December 31, 2006, John Power and Power Curve, Inc. converted these advances of \$115,000 and \$155,000, respectively, into collateralized long-term debt. The notes bear interest at 8% and mature December 31, 2008 and are collateralized by all tangible and intangible assets but junior to all prior perfected liens against those assets. As of June 30, 2008, these notes had current maturities of \$115,000 and \$155,000 respectively and had accrued interest of \$13,800 and \$18,600 respectively.

GOLDEN WEST BREWING COMPANY AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

Effective September 4, 2007, the following transactions were completed:

1.

John C. Power and Power Curve, Inc. (collectively "Power"), the former being the President, Director and principal shareholder of the Company, assigned to Shana Capital Ltd., a Colorado corporation ("Shana Capital") an advance owed to Power by the Company in the amount of \$112,500.

2.

Power assigned to Webquest, Inc., a Colorado corporation ("Webquest") an advance owed to Power by the Company in the amount of \$112,500.

3.

In consideration of the assignments of the Advances owed to Power by the Company, Shana Capital and Webquest each executed and delivered, in favor of Power, their promissory note in the amount of \$112,500. Under the terms of each promissory note, the principal balance together with accrued interest at the rate of 7% per annum are due and payable, in full, on December 31, 2008.

4.

Shana Capital and Webquest each executed and delivered an Agreement to Convert Debt pursuant to which each agreed to convert their respective Advances owed to them by the Company that had been acquired from Power in the amount of \$112,500 into 150,000 shares of Series A Convertible Preferred Stock of the Company (the "Series A Preferred Stock"), or an aggregate of 300,000 shares of Series A Preferred Stock, valued at \$0.75 per share.

John Power, our President, and Power Curve, Inc., a company controlled by John Power, have made other short-term advances to the Company that remained unpaid as of June 30, 2008 in the amount of \$9,000

In January, 2008, the Company issued a convertible debenture to represent a portion of its outstanding indebtedness to its legal counsel. The debenture is in the principal amount of \$30,000 and is repayable, together with interest at the rate of 8% per annum, on or before December 31, 2008. The debenture is convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$0.60 per share, which was at or above market price on the date of grant. The debenture is unsecured.

In March, 2008, the Company borrowed the principal sum of \$50,000 from one lender, the proceeds of which were used for working capital. The note is repayable, together with interest at the rate of 10% per annum, on or before May 31, 2008. The promissory note is secured by a UCC security interest against the Company's inventory and accounts receivable associated with the launch of its new brand Blue Marble Organic Pilsner. The loan is also secured by the personal guarantee of John C. Power, the Company's Chief Executive Officer. As of the date of this report, the

balance of this note was \$10,000 plus accrued interest of \$911.

Lines of Credit - The Company assumed a \$25,000 balance on a credit card issued by Wells Fargo Bank, with interest at the rate of 15.25% as of December 31, 2007. The card is uncollateralized and guaranteed by Tom Atmore, Butte Creek, LLC's Managing Member and our former general manager. The outstanding balance as of June 30, 2008 was \$23,559.

The Company assumed a \$15,400 line of credit on a Butte Creek credit card with Bank of America (formerly MBNA) with interest at the rate of 27.98%. The debt on the credit card is uncollateralized



## GOLDEN WEST BREWING COMPANY AND SUBSIDIARY

## NOTES TO FINANCIAL STATEMENTS

but guaranteed by Tom Atmore, Butte Creek, LLC s managing member and our former general manager. The outstanding balance on June 30, 2008 was \$8,574.

**Long-**

<b><u>Notes Payable</u></b>	<b><u>Current</u></b>	<b><u>Term</u></b>	<b><u>Accrued</u></b>	<b><u>Interest</u></b>	<b><u>Maturity</u></b>	
<b><u>June 30, 2008</u></b>	<b><u>Portion</u></b>	<b><u>Portion</u></b>	<b><u>Interest</u></b>	<b><u>Rate</u></b>	<b><u>Date</u></b>	<b><u>Collateralized</u></b>
<b>Lines of Credit</b>						
Bank of America (Atmore)	\$ 8,574	-	-	27.98%	Demand	No
Wells Fargo (Atmore)	<u>23,559</u>	-	-	15.25%	Demand	No
<b>TOTAL</b>	<b><u>\$ 32,133</u></b>	<b>-</b>	<b>-</b>			

**Notes Payable - Related Parties**

Power Curve, Inc. #1	\$ 50,000		\$ 4,500	9%	Sep., 2008	Yes
Power Curve, Inc. #2	90,000		8,100	9%	Dec., 2008	Yes
Power Curve, Inc. #3	155,000		18,600	8%	Dec., 2008	Yes
John C. Power #1	215,000		19,350	9%	Dec., 2008	Yes
John C. Power #2	115,000		13,800	8%	Dec., 2008	Yes
Credit Facility	315,000		14,495	8%	Dec., 2008	No
Lone Oak Vineyards	11,054		694	9%	Sep., 2008	Yes
Sea Ranch Lodge & Village	<u>100,000</u>	-	<u>12,000</u>	12%	Demand	No
<b>TOTAL</b>	<b><u>\$1,051,054</u></b>	<b>-</b>	<b><u>\$ 91,539</u></b>			

**Notes Payable - Unaffiliated**