

Estate No.: 32-2956593
Court File No.: 32-2956593

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

IN THE MATTER OF THE
NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DRAGAN BREWING AND WINE COMPANY INC.

MATERIAL ADVERSE CHANGE REPORT OF THE PROPOSAL TRUSTEE
MNP LTD.

October 4, 2023

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- Appendix B - First Report
- Appendix C - Second Report
- Appendix D - Updated Cash Flow Projection

1.0

Introduction and Purpose of Report

1.1 Background

- 1.1.1** Dragan Brewing and Wine Company Inc. (“**Dragan**” or the “**Company**”) operates a brewery and restaurant in St. Catharines Ontario. Dragan brews beer under its own brand, as well as third-party contract brewing.
- 1.1.2** On June 19, 2023 Dragan filed a Notice of Intention to File a Proposal (“**NOI**”) pursuant to the *Bankruptcy and Insolvency Act* (“**BIA**”) and MNP Ltd. consented to act as trustee of the proposal (the “**Trustee**”).
- 1.1.3** In accordance with the provisions of the BIA, the Company filed with the Official Receiver a projected cash flow statement on June 28, 2023, which was reviewed by the Trustee for reasonableness and signed by the Trustee and the Company (the “**Original Cash Flow Projection**”). A copy of the Cash Flow Projection is attached hereto as **Appendix “A”**.
- 1.1.4** On July 12, 2023 Dragan filed a motion with the Court seeking an extension of time to file a Proposal to September 5, 2023. As of the date of this report the Court has not yet rendered a decision on this motion.
- 1.1.5** As reported in the Trustee’s First Report in this matter dated July 12, 2023 (the “**First Report**”) the Company’s secured lender, Stoneridge Lending Inc. has filed a motion to among other things, seek a Court Order:
- (i) Terminating the NOI stay period;
 - (ii) Appointing a receiver over the properties, assets and undertakings of Dragan; and,
 - (iii) Substituting the bankruptcy trustee of Dragan (as the termination of the NOI stay would trigger an automatic bankruptcy of Dragan).
- 1.1.6** Stoneridge opposes the extension of the NOI stay period.
- 1.1.7** A copy of the First Report, without appendices, is attached hereto as **Appendix “B”**.
- 1.1.8** On August 23, 2023 the Company filed another motion with the Court seeking a second extension of time to file a Proposal to October 20, 2023. This second extension request was contingent on the Court granting the first extension request as the decision on that motion remained outstanding. As part of that motion the Trustee filed its second report in this matter dated August 23, 2023 (the “**Second Report**”). As of the date of this report the Court has not yet rendered a decision on this motion.
- 1.1.9** A copy of the Second Report, without appendices, is attached hereto as **Appendix “C”**.
- 1.1.10** The Second Report included an updated cash flow projection for the 13 weeks ended October 27, 2023 (the “**Updated Cash Flow Projection**”).
- 1.1.11** A copy of the Updated Cash Flow Projection is attached hereto as **Appendix “D”**.

1.2 Purpose of this Report

1.2.1 The Purpose of this Report is to provide the creditors and this Honourable Court with:

- a. Information regarding a material adverse change with respect to the projected cash-flow and financial circumstances of the Company; and,
- b. The Trustee's intended course of action.

1.3 Limitations

1.3.1 In preparing this Material Adverse Change Report and making the comments herein, the Trustee has been provided with, and has relied upon, certain unaudited draft and/or internal financial information, certain books and records, and other information from other third-party sources, (the "**Information**") of the Company. The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance or other standards established by the Chartered Professional Accountants of Canada. If we were to perform additional procedures or to undertake an audit examination of the Information in accordance with generally accepted auditing standards, additional matters may have come to our attention. Accordingly, the Trustee does not express an opinion or provide any other form of assurance on the financial or other information presented herein. The Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the reliance on this report.

2.0 Material Adverse Change

2.1 Actual Cash Flow Results

- 2.1.1** The Updated Cash Flow Projection provided to the Trustee (attached as Appendix D) forecasts weekly cashflow activity for the weeks ended August 4, 2023 through October 27, 2023.
- 2.1.2** The Updated Cash Flow Projection reflects the following:
- (i) Opening cash balance at July 30, 2023 of \$1,278;
 - (ii) Cumulative net cashflow for July 30, 2023 through October 27, 2023 of \$202,120;
 - (iii) Receipt from a customer for a third-party brewing contract of \$385,000 (“**Third-Party Contract**”) during the week of August 25, 2023; and,
 - (iv) Closing cash balance at September 29, 2023 of \$266,438.
- 2.1.3** The \$385,000 receipt from the Third-Party Contract was discussed at Paragraph 2.1.4 of the Second Report. The Trustee was advised that \$200,000 was received on August 22, 2023 and the remaining \$185,000 was expected by August 25, 2023.
- 2.1.4** The Company provided the Trustee with a screen shot of its bank account on August 23, 2023 showing the deposit of \$200,000.
- 2.1.5** On September 1, 2023 the Company advised the Trustee the remaining \$185,000 had not yet been received, but it expected to receive a cheque of \$100,000 on September 2, and the remaining \$85,000 would be paid later.
- 2.1.6** The \$100,000 was received in two payments of \$50,000 and deposited on September 2 and 5. The Company sent the Trustee proof of the deposits.
- 2.1.7** Through various calls and emails during September the Trustee was advised a cheque for the \$85,000 had been received but the customer requested it not be deposited yet. The Company advised the Trustee on October 2, 2023 this cheque has still not been deposited.
- 2.1.8** The Trustee sent four requests in September, and a fifth on October 2, 2023 for, among other things, a copy of the August 2023 bank statement. The August statement, as well as a print out of the September bank transactions, was not received by the Trustee until October 3, 2023.
- 2.1.9** According to the August bank statement, there is no \$200,000 deposit on August 23, or any other day in the month. According to the September transaction detail there was no \$200,000 deposit during that month either.
- 2.1.10** The Trustee asked the Company to explain why the deposit that appeared in the screen shot previously sent did not appear in the bank statement. The Company advised the \$200,000 had been deposited but was subsequently reversed. The Company further advised it is seeking confirmation from its customer that the customer directed its bank to reverse the deposit of \$200,000. As of the date of this writing the confirmation has not been produced.
- 2.1.11** The two deposits of \$50,000 do both appear in the September transaction detail.

2.1.12 The Company advises it does still expect to receive the \$200,000, as well as permission to deposit the \$85,000 cheque in the near future.

2.1.13 Regardless, according to the September transaction detail the bank account balance at September 29, 2023 was \$93.03. A difference of \$266,345 from the forecast balance per the Updated Cash Flow Projection.

2.1.14 This difference represents a material adverse change from the Updated Cash Flow Projection.

2.1.15 The Company advises a third extension of the NOI stay period will be requested.

2.2 Trustee's Intended Course of Action

2.2.1 It is the Trustee's intended course of action to:

- (i) File this report with the Official Receiver without delay, pursuant to subsection 50(10)(a)(i) of the BIA;
- (ii) Distribute this report to all known creditors of the Company and make available on the Trustee's website pursuant to subsection 50(10)(a.1) of the BIA;
- (iii) Not support any further extension requests for the NOI stay period; and,
- (iv) Await instruction and direction from the Court on the status of these proposal proceedings.

All of which is respectfully submitted this 4th day of October, 2023.

MNP Ltd.

In its capacity as Trustee under
The Notice of Intention to Make a Proposal of
Dragan Brewing and Wine Company Inc.

Per:



Robert Smith CA, CPA, CIRP, LIT
Senior Vice-President

APPENDIX A

	Week Ended												
	30/06/2023	07/07/2023	14/07/2023	21/07/2023	28/07/2023	04/08/2023	11/08/2023	18/08/2023	25/08/2023	01/09/2023	08/09/2023	15/09/2023	22/09/2023
Receipts													
Beer Sales	5,000	5,000	6,000	6,000	6,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Other sales	500	500	500	90,500	500	500	500	90,500	500	500	500	90,500	500
Total Income	5,500	5,500	6,500	96,500	6,500	7,500	7,500	97,500	7,500	7,500	7,500	97,500	7,500
Disbursements													
Commission	500	500	600	600	600	700	700	700	700	700	700	700	700
Freight and Shipping Costs	500	500	500	500	500	500	500	500	500	500	500	500	500
Merchandise Purchases	105	105	105	105	105	105	105	105	105	105	105	105	105
Advertising	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Alcohol Purchase	150	150	150	150	150	150	150	150	150	150	150	150	150
Bank Service Charges	50	50	50	50	50	50	50	50	50	50	50	50	50
Bookkeeping	150	150	150	150	150	150	150	150	150	150	150	150	150
Brew Expense	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Brew Raw Materials Expense	500	500	500	500	500	500	500	500	500	500	500	500	500
Brewing lab/testing costs	30	30	30	30	30	30	30	30	30	30	30	30	30
Catering Expense	300	300	300	300	300	300	300	300	300	300	300	300	300
Computer and Internet Expenses	150	150	150	150	150	150	150	150	150	150	150	150	150
Dues and Subscriptions	100	100	100	100	100	100	100	100	100	100	100	100	100
Equipment Lease Expense	50	50	50	50	50	50	50	50	50	50	50	50	50
Event Expense	250	250	250	250	250	250	250	250	250	250	250	250	250
Food Purchases	100	100	100	100	100	100	100	100	100	100	100	100	100
Interest and Bank Charges Expen	20	20	20	20	20	20	20	20	20	20	20	20	20
Kitchen Supplies	20	20	20	20	20	20	20	20	20	20	20	20	20
Meals and Entertainment	150	150	150	150	150	150	150	150	150	150	150	150	150
Office Supplies	20	20	20	20	20	20	20	20	20	20	20	20	20
Payroll Expenses	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000
Source Deductions			6,000	6,000				6,000		5,000		5,000	
Professional fees	15,000	10,000	25,000	5,000				5,000		10,000		5,000	
Rent Expense		10,000	10,000										
Repairs and Maintenance	250	250	250	250	250	250	250	250	250	250	250	250	250
Restaurant Supplies	100	100	100	100	100	100	100	100	100	100	100	100	100
Security System Expense	600	600	600	600	600	600	600	600	600	600	600	600	600
Squarespace Fees	30	30	30	30	30	30	30	30	30	30	30	30	30
Stripe Fees	10	10	10	10	10	10	10	10	10	10	10	10	10
Subcontractor Expense	100	100	100	100	100	100	100	100	100	100	100	100	100
Supplies	100	100	100	100	100	100	100	100	100	100	100	100	100
Telephone Expense	25	25	25	25	25	25	25	25	25	25	25	25	25
Travel Expense	100	100	100	100	100	100	100	100	100	100	100	100	100
Utilities	500	500	500	500	500	500	500	500	500	500	500	500	500
Vehicle Expense	100	100	100	100	100	100	100	100	100	100	100	100	100
Total Disbursements	24,560	40,560	34,660	31,660	9,660	40,760	9,760	31,760	9,760	35,760	9,760	31,760	9,760
Net cashflow	- 19,060	- 35,060	- 28,160	64,840	3,160	- 33,260	- 2,260	65,740	- 2,260	28,260	- 2,260	65,740	- 2,260
Opening bank balance	200,000	180,940	145,880	117,720	182,560	179,400	146,140	143,880	209,620	207,360	179,100	176,840	242,580
Ending bank balance	180,940	145,880	117,720	182,560	179,400	146,140	143,880	209,620	207,360	179,100	176,840	242,580	240,320

e-Signed by Michael Nazareth
 2023-06-28 14:24:48 GMT



Rob Smith
 MNP Ltd, Proposal Trustee

Michael Nazareth
 President, Dragan Brewing and Wine Company Inc.

Dragan Brewing and Wine Company Inc.
Cashflow Forecast Assumptions
Thirteen weeks ended September 22, 2023

- 1 Forecast beer sales are based on current volume of approximately \$5,000 per month, and expected to increase through the Summer months due to the normal seasonal trend.
- 2 Other sales include contract brewing sales for third parties. The Company is currently negotiating three contracts. The forecast assumes these contracts will be executed generating three sales of \$90,000 each through the thirteen week forecast.
- 3 Professional fees include anticipated fees to the Licensed Insolvency Trustee for ongoing monitoring and court reporting through the Notice of Intention Stay Period, as well as legal counsel to challenge the current motion to lift the Stay and for applications for extensions of the stay period.
- 4 All other expenses are based on results for fiscal 2022 and 2023 year to date levels with no material changes expected.

APPENDIX B

Court File No.: 32-2956593

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

IN THE MATTER OF THE
NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DRAGAN BREWING AND WINE COMPANY INC.

FIRST REPORT TO THE COURT
SUBMITTED BY MNP LTD.
IN ITS CAPACITY AS TRUSTEE UNDER
THE NOTICE OF INTENTION

July 12, 2023

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- Appendix B - Trevor Daly Affidavit
- Appendix C - Cash Flow Projection

1.0

Introduction and Purpose of Report

- 1.1.1** Dragan Brewing and Wine Company Inc. (“**Dragan**” or the “**Company**”) operates a brewery and restaurant in St. Catharine’s Ontario. Dragan brews beer under its own brand, as well as third-party contract brewing.
- 1.1.2** The Company was incorporated and started operations using a third-party brewer in 2018. It opened its own brewery in July 2021 and began contract brewing for third parties in November 2021. Gary Michael Nazareth (“**Nazareth**”) is the sole director.
- 1.1.3** Nazareth advises that despite facing the normal challenges of a start up company, Dragan’s financial results have been strong. The Company has been profitable, showing net income on internal financial statements of approximately \$89,000 for the year ended December 31, 2022, and \$413,000 for January through March 2023.
- 1.1.4** As detailed in the Affidavit of Gary Nazareth Abranches (AKA Gary Michael Nazareth) sworn July 12, 2023 (the “**Nazareth Affidavit**”) and filed with the Court under these proceedings, the Company borrowed \$1.5 million (the “**Loan**”) from StoneRidge Lending Inc. (“**StoneRidge**”). Dragan granted StoneRidge a general security agreement to secure payment of this loan.
- 1.1.5** The Loan was to be paid in full by September 10, 2022. As set out in the Nazareth Affidavit, the Loan was subsequently extended to March 30, 2023. Dragan was working to obtain alternate financing from a Schedule A bank to payout the Loan in full. The alternate financing was not in place by March 30, 2023 and Dragan requested a further extension from StoneRidge.
- 1.1.6** StoneRidge denied the extension request and issued demand for payment. On June 9, 2023 StoneRidge issued a Notice of Intention to Enforce Security under section 244 of the *Bankruptcy and Insolvency Act* (the “**BIA**”).
- 1.1.7** In response, on June 19, 2023, Dragan filed a Notice of Intention (“**NOI**”) to file a proposal under s. 50.4 of the *BIA*. MNP Ltd. consented to act as trustee under the NOI and proposal (the “**Trustee**”).
- 1.1.8** It is Dragan’s intention to use the stay period imposed by the NOI to secure alternate financing to pay out the Loan in full.
- 1.1.9** Dragan is currently in discussion with three potential alternate financiers, including one Schedule A Bank and two private investors, and expects term sheets from all three by July 21, 2023. Nazareth advises that all three financiers are aware of the NOI proceedings.
- 1.1.10** On June 23, 2023, Riel Beverages Corp (“**Riel**”) and various related parties (the “**Riel Parties**”) filed a motion with the Ontario Superior Court of Justice to, among other things, seek a Court Order lifting the NOI stay of proceedings to allow them to continue to prosecute an action relating to alleged fraud of Dragan and Nazareth. The Riel Parties allege that Dragan and Nazareth obtained a payment of \$300,000 from them based on fraudulent documentation and misrepresentation of Nazareth’s dealings with the Liquor Control Board of Ontario. The grounds for the Riel Parties’ motion are set out in the Affidavit of Nicola Correa sworn June 23, 2023, attached hereto without appendices as **Appendix “A”**.

1.1.11 On June 26, 2023 StoneRidge filed a motion with the Ontario Superior Court of Justice, to among other things, seek a Court Order:

- (i) Terminating the NOI stay period;
- (ii) Appointing a receiver over the properties, assets and undertakings of Dragan; and,
- (iii) Substituting the bankruptcy trustee of Dragan (as the termination of the NOI stay would trigger an automatic bankruptcy of Dragan).

1.1.12 The grounds for StoneRidge's motion are that it has suffered damages because of Dragan's failure to repay the Loan. StoneRidge claims the Loan amount is now over \$1.65 million including principal, interest, fees, charges, and other amounts owed under the Loan agreement.

1.1.13 StoneRidge further claims Dragan and Nazareth failed to act in good faith and made false representations regarding their efforts and ability secured funding to payout the Loan. Further, StoneRidge references the claims of fraud and misrepresentation alleged by the Riel Parties. The grounds for StoneRidge's motion are set out in the Affidavit of Trevor Daly sworn June 23, 2023, attached hereto without appendices as **Appendix "B"**.

1.1.14 The purpose of this, the Trustee's First Report, is to:

- i) Provide the Court with a copy of the cash flow projection prepared by Dragan; and,
- ii) Provide the Court with the Trustee's recommendation with respect to the Company's request for an extension of time for filing a proposal.

2.0 Cash Flow Projection

- 2.1.1** To date, Dragan has provided the Trustee with its full co-operation and unrestricted access to its premises, books and records.
- 2.1.2** In accordance with the provisions of the BIA, the Company filed with the Official Receiver a projected cash flow statement on June 28, 2023, which was reviewed by the Trustee for reasonableness and signed by the Trustee and the Company (the “**Cash Flow Projection**”). A copy of the Cash Flow Projection is attached hereto as **Appendix “C”**.
- 2.1.3** Based on the Cash Flow Projection, with the exception of the repayment of the Loan to StoneRidge, the Trustee believes that Dragan will be able to meet its obligations to creditors through the forecast period ending September 22, 2023. The Cash Flow Projection reflects normal operations only and does not reflect assumptions re new financing or the Loan repayment.
- 2.1.4** The Trustee has implemented procedures for monitoring the Company’s receipts and disbursements and has kept in close contact with Nazareth in order to ensure that operations are continuing in accordance with the Cash Flow Projection.

3.0 Company Request to Extend NOI Stay Period

- 3.1.1** The Company is in active conversation with possible replacement financiers and requires more time to pursue the viability of securing sufficient funds to payout the Loan in full.
- 3.1.2** Dragan is seeking a 45-day extension of the time for filing a proposal from July 19, 2023 to September 5, 2023 (the 45th day, September 3, 2023 is a Sunday and September 4, 2023 is a statutory holiday).
- 3.1.3** StoneRidge has not consented to the extension of the stay and, along with the Riel Parties, is actively seeking a lifting of same by the Court.
- 3.1.4** Apart from the allegations brought by StoneRidge and Riel, as discussed in this report and the affidavits attached as appendices hereto, the Trustee believes that the unsecured creditors would not be materially prejudiced by an extension of time for the Company to file its proposal.
- 3.1.5** StoneRidge's motion to lift the NOI stay of proceedings and grant the other relief sought was heard in St. Catharines court on July 10, 2023. If the Court does not grant the lifting of the stay and appointment of a full receiver, StoneRidge has requested the Court appoint an Interim Receiver to monitor and oversee the operations and of Dragan through the NOI stay period. As of the date of this report the decision of the Court on the StoneRidge motion has not yet been released.
- 3.1.6** If the Court opts to grant the relief sought by StoneRidge a Court Order will be issued either appointing the Interim Receiver or terminating the NOI stay. If the relief is not granted, it is the Trustee's opinion the NOI process should be allowed to continue, and Dragan should have additional time to secure financing to payout StoneRidge.
- 3.1.7** The Trustee further believes that:
- i) The Company is acting in good faith and with due diligence; and,
 - ii) The Company would likely be able to make a viable proposal if the Company was given additional time.
- 3.1.8** The Trustee recommends that the Company's request for an extension to file a proposal be granted.

All of which is respectfully submitted on this 12th day of July 2023.

MNP Ltd.
In its capacity as Trustee under
The Notice of Intention to Make a Proposal of
Dragan Brewing and Wine Company Inc.

Per:



Robert Smith CA, CPA, CIRP, LIT
Senior Vice-President

APPENDIX C

Court File No.: 32-2956593

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

IN THE MATTER OF THE
NOTICE OF INTENTION TO MAKE A PROPOSAL OF
DRAGAN BREWING AND WINE COMPANY INC.

SECOND REPORT TO THE COURT
SUBMITTED BY MNP LTD.
IN ITS CAPACITY AS TRUSTEE UNDER
THE NOTICE OF INTENTION

August 23, 2023

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- Appendix C - Updated Cash Flow Projection

1.0

Introduction and Purpose of Report

- 1.1.1** Dragan Brewing and Wine Company Inc. (“**Dragan**” or the “**Company**”) operates a brewery and restaurant in St. Catharine’s Ontario. Dragan brews beer under its own brand, as well as third-party contract brewing.
- 1.1.2** Gary Michael Nazareth (“**Nazareth**”) is the sole director.
- 1.1.3** On June 19, 2023 Dragan filed a Notice of Intention to File a Proposal (“**NOI**”) pursuant to the *Bankruptcy and Insolvency Act* (“**BIA**”) and MNP Ltd. consented to act as trustee of the proposal (the “**Trustee**”).
- 1.1.4** The Company borrowed \$1.5 million (the “**Loan**”) from StoneRidge Lending Inc. (“**StoneRidge**”). Dragan granted StoneRidge a general security agreement to secure payment of this loan.
- 1.1.5** The Loan was to be paid in full by September 10, 2022. The Loan was subsequently extended to March 30, 2023. Dragan was working to obtain alternate financing from a Schedule A bank to payout the Loan in full. The alternate financing was not in place by March 30, 2023 and Dragan requested a further extension from StoneRidge.
- 1.1.6** StoneRidge denied the extension request and issued demand for payment. On June 9, 2023 StoneRidge issued a Notice of Intention to Enforce Security under section 244 of the *Bankruptcy and Insolvency Act* (the “**BIA**”).
- 1.1.7** In response, on June 19, 2023, Dragan filed a Notice of Intention (“**NOI**”) to file a proposal under s. 50.4 of the *BIA*. MNP Ltd. consented to act as trustee under the NOI and proposal (the “**Trustee**”).
- 1.1.8** It is Dragan’s intention to use the stay period imposed by the NOI to secure alternate financing to pay out the Loan in full.
- 1.1.9** On July 12, 2023 Dragan filed a motion with the Court seeking an extension of time to file a Proposal to September 5, 2023. As of the date of this report the Court has not yet rendered a decision on this motion.
- 1.1.10** On June 23, 2023, Riel Beverages Corp (“**Riel**”) and various related parties (the “**Riel Parties**”) filed a motion with the Ontario Superior Court of Justice to, among other things, seek a Court Order lifting the NOI stay of proceedings to allow them to continue to prosecute an action relating to alleged fraud of Dragan and Nazareth. The Riel Parties allege that Dragan and Nazareth obtained a payment of \$300,000 from them based on fraudulent documentation and misrepresentation of Nazareth’s dealings with the Liquor Control Board of Ontario. This motion was discussed in further detail in the Trustee’s first report filed with the Court in this matter.
- 1.1.11** On June 26, 2023 StoneRidge filed a motion with the Ontario Superior Court of Justice, to among other things, seek a Court Order:
- (i) Terminate the NOI stay period;
 - (ii) Appoint a receiver over the properties, assets and undertakings of Dragan; and,

(iii) Substitute the bankruptcy trustee of Dragan (as the termination of the NOI stay would trigger an automatic bankruptcy of Dragan).

1.1.12 The grounds for StoneRidge’s motion are that it has suffered damages because of Dragan’s failure to repay the Loan. StoneRidge claims the Loan amount is now over \$1.65 million including principal, interest, fees, charges, and other amounts owed under the Loan agreement.

1.1.13 StoneRidge further claims Dragan and Nazareth failed to act in good faith and made false representations regarding their efforts and ability secured funding to payout the Loan. Further, StoneRidge references the claims of fraud and misrepresentation alleged by the Riel Parties. This motion was discussed in further detail in the Trustee’s first report filed with the Court in this matter.

1.1.14 On July 12, 2023 Dragan filed a motion with the Court seeking an extension of time to file a Proposal to September 5, 2023. As of the date of this report the Court has not yet rendered a decision on this motion.

1.1.15 The Trustee has filed one prior report with the Court in this matter dated July 12, 2023 (the “**First Report**”). A copy of the First report, without Appendices is attached as Appendix “**A**”.

1.1.16 The purpose of this, the Trustee’s Second Report, is to:

- i) Provide the Court with a copy of the updated cash flow projection prepared by Dragan; and,
- ii) Provide the Court with the Trustee’s recommendation with respect to the Company’s request for an extension of time for filing a proposal.

1.2 Limitations

1.2.1 In preparing this report and making the comments herein, the Trustee has been provided with, and has relied upon, certain unaudited draft and/or internal financial information, certain books and records, and other information from other third-party sources, (the “**Information**”) of the Company. The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with generally accepted assurance or other standards established by the Chartered Professional Accountants of Canada. If we were to perform additional procedures or to undertake an audit examination of the Information in accordance with generally accepted auditing standards, additional matters may have come to our attention. Accordingly, the Trustee does not express an opinion or provide any other form of assurance on the financial or other information presented herein. The Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the reliance on this report.

2.0 Updated Cash Flow Projection

- 2.1.1** To date, Dragan has provided the Trustee with its full co-operation and unrestricted access to its premises, books and records.
- 2.1.2** In accordance with the provisions of the BIA, the Company filed with the Official Receiver a projected cash flow statement on June 28, 2023, which was reviewed by the Trustee for reasonableness and signed by the Trustee and the Company (the “**Original Cash Flow Projection**”). A copy of the Cash Flow Projection is attached hereto as **Appendix “B”**.
- 2.1.3** During July the Company was asked by a customer who had placed a deposit of \$108,000 on a brewing contract to refund the deposit, which it did. Nazareth advises this request was prompted when the customer learned of the court actions against the Company.
- 2.1.4** This lost contract was more than offset by two new contracts executed in August, one for \$43,000 and one for \$385,000. The \$43,000 has been received. For the larger contract \$200,000 was received on August 22, 2023 and the remaining \$185,000 is expect by August 25, 2023.
- 2.1.5** The Company intends to pay an estimated \$98,000 in legal fees and disbursements for Nazareth to defend the action commenced by StoneRidge as well as the action commenced by the Riel Parties in St. Catharines. Dragan’s counsel has advised the Trustee that the amount of the legal fees is subject to court approval, as required by the July 13, 2023 Endorsement issued by St. Catharines court. Both the Company and Nazareth are named defendants in the two actions. The proceedings are highly contentious. Pursuant to section 136 of the *Ontario Business Corporations Act*, a corporation may advance money to a director, officer or other individual for the costs, charges and expenses of a legal proceeding in which the individual is involved because of association with the corporation. The assets of Nazareth and a related company have been frozen by a Mareva injunction issued by the St. Catharines court as part of the Stoneridge and Riel Parties proceedings previously mentioned. The Mareva injunction does not apply to assets of Dragan. Stoneridge and Riel Parties are expected to object to this payment. Stoneridge does not believe it is proper for Dragan to fund the personal legal fees of Nazareth
- 2.1.6** An updated cash flow projection is attached as **Appendix “C”** (the “**Updated Cash Flow Projection**”). The Updated Cash Flow Projection forecasts receipts and disbursements for the 13 weeks ended October 27, 2023. The forecast reflects normal operations only and does not reflect assumptions re new financing or the Loan repayment.
- 2.1.7** Based on the Updated Cash Flow Projection, with the exception of the repayment of the Loan to StoneRidge, the Trustee believes that Dragan will be able to meet its obligations to creditors through the forecast period ending October 27, 2023.
- 2.1.8** The Updated Cash Flow Projection estimates an improved financial position from the Original Cash Flow Projection. This is due to the new contracts discussed above.

3.0 Company Request to Extend NOI Stay Period

- 3.1.1** The Company is in active conversation with possible replacement financiers and requires more time to pursue the viability of securing sufficient funds to payout the Loan in full.
- 3.1.2** Dragan is currently in discussion with three potential alternate financiers, including one Schedule A Bank and two private investors. Term sheets were expected from all three in July, 2023. To date no term sheet has been received but discussions are ongoing. Nazareth advises that all three financiers are aware of the NOI proceedings. A detailed summary of the status of discussions with these potential financiers is provided in the affidavit of Nazareth sworn August 21, 2023.
- 3.1.3** Dragan is seeking a 45-day extension of the time for filing a proposal from September 5, 2023 (which deadline remains subject to approval of Dragan's initial extension request) to October 20, 2023.
- 3.1.4** StoneRidge has not consented to the extension of the stay and, along with the Riel Parties, is actively seeking a lifting of same by the Court.
- 3.1.5** Apart from the allegations brought by StoneRidge and Riel, as discussed in this report and the affidavits attached as appendices hereto, the Trustee believes that the unsecured creditors would not be materially prejudiced by an extension of time for the Company to file its proposal.
- 3.1.6** StoneRidge's motion to lift the NOI stay of proceedings and grant the other relief sought was filed with the Hamilton Court on or around July 11, 2023, in conjunction with Dragan's deadline extension request. As previously stated, the Court has not yet rendered a decision.
- 3.1.7** If the Court opts to grant the relief sought by StoneRidge a Court Order will be issued either appointing the Interim Receiver or terminating the NOI stay. If the relief is not granted, it is the Trustee's opinion the NOI process should be allowed to continue, and Dragan should have additional time to secure financing to payout StoneRidge.
- 3.1.8** The Trustee further believes that:
- i) The Company is acting in good faith and with due diligence; and,
 - ii) The Company would likely be able to make a viable proposal if the Company was given additional time.
- 3.1.9** The Trustee recommends that the Company's request for an extension to file a proposal be granted.

All of which is respectfully submitted on this 23rd day of August 2023.

MNP Ltd.
In its capacity as Trustee under
The Notice of Intention to Make a Proposal of
Dragan Brewing and Wine Company Inc.

Per:



Robert Smith CA, CPA, CIRP, LIT
Senior Vice-President

APPENDIX D

Dragan Brewing and Wine Company Inc.
Cashflow Forecast
Thirteen weeks ended October 27, 2023

	Week Ended												
	04/08/2023	11/08/2023	18/08/2023	25/08/2023	01/09/2023	08/09/2023	15/09/2023	22/09/2023	29/09/2023	06/10/2023	13/10/2023	20/10/2023	27/10/2023
Receipts													
Beer Sales	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Other sales	43,500	500	500	385,500	500	500	90,500	500	500	500	500	500	500
Total Income	50,500	7,500	7,500	392,500	7,500	7,500	97,500	7,500	7,500	7,500	7,500	7,500	7,500
Disbursements													
Commission	700	700	700	700	700	700	700	700	700	700	700	700	700
Freight and Shipping Costs	500	500	500	500	500	500	500	500	500	500	500	500	500
Merchandise Purchases	105	105	105	105	105	105	105	105	105	105	105	105	105
Advertising	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Alcohol Purchase	150	150	150	150	150	150	150	150	150	150	150	150	150
Bank Service Charges	50	50	50	50	50	50	50	50	50	50	50	50	50
Bookkeeping	150	150	150	150	150	150	150	150	150	150	150	150	150
Brew Expense	3,000	3,000		6,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Brew Raw Materials Expense	500	500	500	500	500	500	500	500	500	500	500	500	500
Brewing lab/testing costs	30	30	30	30	30	30	30	30	30	30	30	30	30
Catering Expense	300	300	300	300	300	300	300	300	300	300	300	300	300
Computer and Internet Expenses	150	150	150	150	150	150	150	150	150	150	150	150	150
Dues and Subscriptions	100	100	100	100	100	100	100	100	100	100	100	100	100
Equipment Lease Expense	50	50	50	50	50	50	50	50	50	50	50	50	50
Event Expense	250	250	250	250	250	250	250	250	250	250	250	250	250
Food Purchases	100	100	100	100	100	100	100	100	100	100	100	100	100
Interest and Bank Charges Expen	20	20	20	20	20	20	20	20	20	20	20	20	20
Kitchen Supplies	20	20	20	20	20	20	20	20	20	20	20	20	20
Meals and Entertainment	150	150	150	150	150	150	150	150	150	150	150	150	150
Office Supplies	20	20	20	20	20	20	20	20	20	20	20	20	20
Payroll Expenses	11,000		11,000		11,000		11,000		11,000		11,000		11,000
Source Deductions			6,000				6,000		6,000		6,000		6,000
Professional fees				26,500	98,000	5,000	5,000		5,000		5,000		5,000
Rent Expense	10,000				10,000					10,000			
Repairs and Maintenance	250	250	250	250	250	250	250	250	250	250	250	250	250
Restaurant Supplies	100	100	100	100	100	100	100	100	100	100	100	100	100
Security System Expense	600	600	600	600	600	600	600	600	600	600	600	600	600
Squarespace Fees	30	30	30	30	30	30	30	30	30	30	30	30	30
Stripe Fees	10	10	10	10	10	10	10	10	10	10	10	10	10
Subcontractor Expense	100	100	100	100	100	100	100	100	100	100	100	100	100
Supplies	100	100	100	100	100	100	100	100	100	100	100	100	100
Telephone Expense	25	25	25	25	25	25	25	25	25	25	25	25	25
Travel Expense	100	100	100	100	100	100	100	100	100	100	100	100	100
Utilities	500	500	500	500	500	500	500	500	500	500	500	500	500
Vehicle Expense	100	100	100	100	100	100	100	100	100	100	100	100	100
Total Disbursements	30,760	9,760	23,760	39,260	128,760	14,760	31,760	9,760	31,760	19,760	31,760	9,760	31,760
Net cashflow	19,740 -	2,260 -	16,260	353,240 -	121,260 -	7,260	65,740 -	2,260 -	24,260 -	12,260 -	24,260 -	2,260 -	24,260
Opening bank balance	1,278	21,018	18,758	2,498	355,738	234,478	227,218	292,958	290,698	266,438	254,178	229,918	227,658
Ending bank balance	21,018	18,758	2,498	355,738	234,478	227,218	292,958	290,698	266,438	254,178	229,918	227,658	203,398

Dragan Brewing and Wine Company Inc.
Cashflow Forecast Assumptions
Thirteen weeks ended October 27, 2023

- 1 Beer sales are forecast based on current trends. Expected to remain steady through the Fall as corporate bookings increase.
- 2 Other sales include contract brewing sales for third parties. The Company executed a \$43,000 contract in early August and has signed a \$385,000 contract. Payment is expected to be received on August 21, 2023. The Company is negotiating an additional contract and it is assumed \$90,000 will be received during the week of September 15, 2023. Other contracts are expected to be signed but have not been included in the forecast.
- 3 Professional fees include anticipated fees to the Licensed Insolvency Trustee for ongoing monitoring and court reporting through the Notice of Intention Stay Period, as well as legal counsel for applications for extensions of the stay period. Professional fees also include an estimated \$98,000 to respond to StoneRidge's motion to, among other things, lift the NOI stay of proceedings and appoint a receiver.
- 4 All other expenses are based on results for fiscal 2022 and 2023 year to date levels with no material changes expected.