

District of: Ontario
Division No. 07 - Hamilton
Court No. 32-2956593
Estate No. 32-2956593

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF DRAGAN BREWING AND WINE COMPANY INC.

Trustee: MNP Ltd.

SECTION A - Background

Dragan Brewing and Wine Company Inc. (“**Dragan**” or the “**Company**”) operated a brewery and restaurant from leased premises at 100 Grantham Ave S, St. Catharines, Ontario (the “**Premises**”). Dragan brewed beer under its own brand, as well as third-party contract brewing.

Michael Nazareth (“**Nazareth**”) was the director of Dragan until September 29, 2023 when he resigned and was replaced with Kyle Martin (“**Martin**”).

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. Nazareth advises that despite facing the normal challenges of a start up company, Dragan’s financial results were strong. The Company was 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.

However, the Company was unable to repay a secured loan to its lender, StoneRidge Lending Inc. (“**StoneRidge**”) by the repayment due date of September 10, 2022. On June 9, 2023 StoneRidge issued a Notice of Intention to Enforce Security under section 244 of the Bankruptcy and Insolvency Act (the “**BIA**”).

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. (“**MNP**”) consented to act as Trustee under the NOI and proposal.

During the NOI stay period Dragan continued to seek replacement financing to payout the StoneRidge loan; however, was unable to do so. On October 4, 2023 MNP issued a Material Adverse Change Report to notify creditors and the Office of the Superintendent of Bankruptcy of a material variance in Dragan’s cash balance versus the amount expected in the cashflow forecast filed under the NOI proceedings, as well as misrepresentations made to the Trustee of bank activity.

At the time of filing the NOI, Nazareth advised MNP the only creditor of Dragan was StoneRidge. During October MNP began to learn of various other creditors including investors, customers who were owed for product to be supplied under third party brewing contracts, and the landlord who had made a short-term loan one day after the NOI was filed. On October 30, 2023 MNP learned that the relationship between Martin and Nazareth had become adversarial, Nazareth had been terminated and all access to the Premises and records of Dragan had been removed and the brewery had been shut down and locks changed by the landlord.

On November 6, 2023 the Ontario Superior Court of Justice issued a court Order adjudging Dragan bankrupt and appointing MNP as trustee (the “Trustee”).

StoneRidge holds a first charge security interest in all assets of Dragan pursuant to a general security agreement (“GSA”). StoneRidge is considering the appointment of a receiver to take possession of and realize on its security. StoneRidge advised the Trustee that it does not consent to the Trustee dealing with its security.

CLASS I - Stocks of merchandise

All of Dragan’s inventory is in a third-party cold storage unit. According to a report from the storage company there are over 1,000 cases of beer plus kegs and other inventory in the unit. The storage company has claimed a storage lien of approximately \$4,000.

Customers of Dragan have made claims that certain of the inventory was brewed for them under third party contract and is their property. Any remaining inventory not owned by third parties is subject to StoneRidge’s GSA.

CLASS II - Plant, machinery, equipment, and office

There is brewing equipment at the Premises. All equipment is subject to StoneRidge’s GSA.

CLASS III - Buildings and real estate

The Company did not own real estate.

CLASS IV - Books and records

Nazareth and the former bookkeeper have surrendered all books and records, including company laptops, to the Trustee.

CLASS V - Other assets

There are no other assets the Trustee is aware of.

Property of Bankruptcy not divisible amongst creditors by virtue of Section 67(b), of the Bankruptcy and Insolvency Act

None known.

Property placed under the guardianship of the Company

None known.

SECTION B

1. Conservatory and protective measures

The business was shut down prior to bankruptcy. The Trustee has taken no conservatory or protective measures. As there are no unencumbered assets available to the estate the Trustee has not taken possession of the Premises, equipment, or inventory.

2. Carrying on business

The Company’s operations ceased prior to bankruptcy.

SECTION C - Legal proceedings

On June 23, 2023, Riel Beverages Corp 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.

StoneRidge has also commenced an action against Dragan and Nazareth for repayment of its debt.

SECTION D - Provable claims

	As per Statement of Affairs	Claims Received to Date
Unsecured	\$269,038	\$865,722
Preferred	Nil	Nil
Secured	\$1,650,000	\$1,880,513
Deemed trust	Nil	Nil
Total	\$1,919,038	\$2,746,235

SECTION E - Secured creditors

The following registrations appear on the Ontario *Personal Property Security Act* Registry:

- StoneRidge Lending - GSA
- Liquid Capital Exchange Corp. - GSA

We understand there is no debt owing to Liquid Capital Exchange Corp.

SECTION F - Anticipated realizations and projected distribution

As all of the Company assets are encumbered by StoneRidge, the Trustee does not anticipate a distribution in this estate.

SECTION G - Reviewable transactions and preferential payment

The Trustee has done a review of the bank activity for the last twelve months and investigated any disbursements from the Company bank account exceeding \$10,000.

There were payments made to Lydia Tomek of \$8,350 and \$10,000 on September 3 and 5, 2023 respectively. Nazareth advises the payments were to pay back short-term advances made by Ms. Tomek in June and August 2023 to cover payroll.

SECTION H - Other matters

The Trustee retained the former bookkeeper to issue T4’s and ROE’s to the former employees of Dragan. The Trustee has also initiated the claims process under the *Wage Earner Protection Program* for the employee’s unpaid wages, vacation and termination pay.

Dated at London, Ontario this 27th day of November 2023.

MNP Ltd.
Licensed Insolvency Trustee of
Dragan Brewing and Wine Company Inc.



Per: Rob Smith CPA, CA, CIRP, LIT
Senior Vice-President

Hamilton
Court No. **32-2956593**
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IN THE MATTER OF THE BANKRUPTCY OF
Dragan Brewing and Wine Company Inc.

Carrying on business in the City of Mississauga,
in the Province of Ontario

TRUSTEE'S PRELIMINARY REPORT

MNP Ltd.
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London, ON N6E 1A2