

IN THE MATTER OF THE BANKRUPTCY OF  
GRAND SPIRITS INC.

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Minutes of the First General Meeting of Creditors

Date January 31, 2020 Time 10:00 am  
Place BDO Canada Limited - 163 First Street, Orangeville, ON  
Chairperson Robyn Duwyn, BDO Canada Limited

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ATTENDANCE/QUORUM (attendance list attached) - The Chair established that a quorum was present.

CALL TO ORDER The chairperson called the meeting to order at 10:00 and, following a brief recess to allow a creditor to complete a claim, reviewed the following:

*Purpose* confirm appointment of Trustee, consider affairs of debtor, appoint inspectors, and give directions to trustee

*Tabled Documents* Assignment, certificate of appointment, statement of affairs, affidavit of mailing, files with creditor claims if required, Trustee's preliminary report (attached), Background provided by the designated officer (attached).

The Chair noted that shareholders were welcome to attend the meeting and ask questions but voting would be limited to proven creditors. A brief conversation then took place on the role of shareholders in the insolvency process.

The Trustee reviewed the background and preliminary report and opened the meeting to questions.

APPOINTMENT OF TRUSTEE

Motion by Proxy that BDO continue as Trustee. Approved unanimously.

QUESTIONS AND DIRECTION

A discussion took place on the assets available in the estate and the efforts of the Trustee to date to collect on the receivable related to the sub lease of the property. It was decided that the Trustee would continue to pursue collection for 1-2 more weeks and then engage a collection agent.

A discussion then took place on the approximately \$20,000 worth of spirits that went missing in August of 2019. It was noted that the OPP were investigating and Trustee would follow up on the investigation.

A question was then asked about the company financials. The Chair noted that BDO was in possession of the draft internal statements for Fiscal 2017 and Fiscal 2018. Sheila Stam undertook to provide the quick book data for the period from April 1, 2018 until the date of bankruptcy.

A question was asked about transfers to and from the company bank account and how business was conducted. Sheila Stam stated that the company had one bank account and that transfers out of the company account would have been to an account that she had signing authority on. Sheila stated that she frequently purchased items for the business personal and then submitted the receipts and repaid the expense. She stated that the receipts were submitted but formal expense reports were not. Sheila stated that on one occasion an investor provided their money to her directly, she used a portion to cover a company utility bill and the balance of the funds were paid into the company.

A question was asked on the relationship between Forks of the Credit and Grand Spirits. Jamie Stam indicated that the companies were related through common ownership and would at time share staff or sell items back and forth. As a result, the statements would show payments between the two companies but no loans to or from either company.

A question was asked on the number and value of the NFS payments in 2018 and 2019. Sheila stated that many of the payment were automatic and resulted in NSF payments. She further stated that Grand Spirits was not knowingly sending out cheques that would not clear. The Trustee was instructed to review the bank statements to determine the cause of the NSF payments.

A discussion then took place on the role of Jamie Stam. Jamie indicated that he was a third party consultant to Grand

Spirits.

A question was asked on the sale of bottles in May through July 2019 and why additional bottles were purchased when the records show low sales. Sheila stated that the sales system at the restaurant was being used by the tenant and the sales were only being recorded in Quick Books.

#### APPOINTMENT OF INSPECTORS

There were three nominations for inspector. Following a vote two inspectors were unanimously elected, Don Brooks and Anthony Irwin. The third nominee was voted down.

#### DIRECTION TO THE TRUSTEE

The Trustee undertook to complete the following tasks:

1. Continue to collect the receivable and engage a collection agent if unsuccessful.
2. Follow up with the OPP on the investigation into the missing spirits.
3. Obtain the quick book data for April 2018 until bankruptcy. The data will be reviewed for:
  - a. Sales data for July 2019
4. Obtain the bank statements for the past year.
5. Review the bank statements for NSF payments.
6. Create a web site for creditors to access documents.

#### ADJOURNMENT

On a motion by proxy, the meeting was adjourned at 11:08 am.



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Chairperson - Creditor Meeting

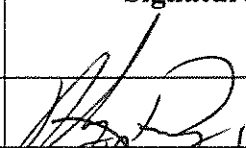
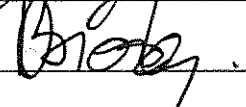
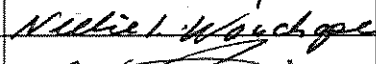

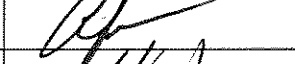


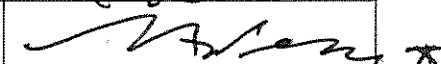





**Attendance List  
First Meeting of Creditors in the Estate of**

Estate # 35-2604003

Chairperson:

BDD - R. Duwy  
(Trustee)

Grand spirits.

Name	Representing	Amount of Claim	Signature
Robert Duwy	BDD	—	
Donald Brooks	Myself	Shareholder	
Fred & Nellie Wauchop	ourselves	founding <sup>\$100.00</sup> member Creditor	
<del>STEWART PERRETT</del>	<del>FRSA</del>	Shareholder	
ANTHONY IRWIN	MYSELF	SHAREHOLDER	
Luis Osuna Vera	CARTERS CAW	\$4,332 Creditor	
Avery Delisle	Tadium Mechanical Inc	\$1,795.58	
Noel Peberdy	PNB DEVELOPMENTS	\$24,000	
Noel Peberdy	ONTARIO MALT GROUP	\$6,883.11	
Christy Balch	myself	shareholder	
Tom Booc	<del>myself</del>	shareholder	
Donald (Bobby) Lee	myself	Shareholder	
DAMIAN MURRAY	Myself	Shareholder	



IN THE MATTER OF THE BANKRUPTCY OF  
GRAND SPIRITS INC.  
A CORPORATION INCORPORATED UNDER THE LAWS OF ONTARIO

TRUSTEE'S REPORT ON PRELIMINARY ADMINISTRATION

ESTATE NUMBER: 35-2604003

**Background**

Grand Spirits Inc. ("Grand" or the "Company") is a privately owned business that carried on business as a restaurant and distillery in Grand Valley, Ontario.

The Company is located at 27 Main Street, Grand Valley, ON. Grand has been operating from this location since 2017. The Company rented its operating location.

Due to declining revenues, the company was unable to pay its debts as they came due. The Company ceased all operations in June of 2019 and on January 13, 2020 made an assignment in bankruptcy and BDO Canada Limited was appointed as trustee ("BDO" or the "Trustee").

Excerpts from the Company's 2017 and 2018 statements are included below.

	FY2018	FY2017
Sales	217,285	0
Cost of Sales	370,116	83,213
Gross Profit	(152,831)	(83,213)
Expenses	158,865	127,569
Net Loss	(311,696)	(210,782)

Losses for the first two years of operation were in excess of \$521,000. Financials for FY 2019 were not available; however, an internal budget form indicated total sales of \$163,100 for the period from April 1, 2018 until August 21, 2018 while the target for the same period was approximately \$246,000.

**Section A - Trustee's Duties**

Under Section 16(1) of the *Bankruptcy and Insolvency Act* ("BIA"), the Trustee is required to give security in cash or by bond of a guaranty company in an amount set by the Official Receiver. No bond has been set in this estate.

**Class I - Stocks of Merchandise**

The Company had no inventory at the time of the Trustee's appointment.

**Class II - Plant, Machinery and Equipment**

The Company had no equipment at the time of the Trustee's appointment.

**Class III - Buildings and Real Estate**

The Company had no real estate at the time of the Trustee's appointment..

**Class IV - Books and Records**

The Trustee has taken possession of the records of Grand required to complete the administration of the estate.

**Class V - Other Assets**

The Trustee took possession of approximately \$8,000 in cash on hand.

**Section B - Conservatory and Protective Measures**

The Trustee is in possession of all assets. As no physical assets were taken possession of the Trustee has not taken any other protective measures.

**Section C - Legal Proceedings**

The Trustee is aware of the following legal proceedings by or against the Company.

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**Section D - Provable Claims**

To date, 1 unsecured claims with a total value of \$9,930.15 and no preferred claims have been received.

**Section E - Secured Creditors**

Based on the Company records, the Secured Creditors and the amount of the indebtedness owed by the Company to each are as follows:

<u>Secured Creditor</u>	<u>Estimated Amount</u>
None	

**Section F - Total Anticipated Realization and Projected Distribution**

The Trustee does not anticipate making a distribution to the unsecured creditors.

**Section G - Preference Payments and Transfers at Under Value**

The Trustee is reviewing the bank statements for the three months preceding bankruptcy for arm's length transactions and twelve months preceding bankruptcy for transactions with related parties. The results will be reported to the Inspectors.

**Section H - Other Matters**

The Trustee received the following questions prior to the first meeting of creditors.

1. The august 29, 2019 statements showed \$9,478 in accounts receivable. Was this amount collected and if so what were the funds used for?
2. Was the restaurant sub-let in June and July of 2019 and of so what was the rent charge and what were the funds used for?
3. Do you have any bank statements from the start of the business until April 2018?


The following answers were provided:

The accounts receivable is related to the tenant, and rent and was never collected - hence it being recorded as an Accounts Receivable. (She has continued to operate in the building, since our departure.)

The principal does not have the bank statements from the start of business until April 2018 and BDO will attempt to collect them from the bank directly.

Dated at Kitchener, Ontario this 30<sup>th</sup> day of January, 2020.

BDO Canada Limited  
Trustee of the estate of  
Grand Spirits Inc.

  
Per: Robyn Duwyn, CPA, CA, CIRP  
Licensed Insolvency Trustee  
Vice President





## **Grand Spirits Inc. Background**

For more than thirty years a large dilapidated schoolhouse sat on the top of the hill in Grand Valley, Ontario. For three decades, the Town Council had unsuccessfully persuaded the owner to make the necessary repairs to the deteriorating building and eyesore on Main Street.

But, in the Spring of 2016, with the help of the Mayor, we were successful in convincing the owner to restore his property and allow a newly created small business to lease the Main Floor from him. We collaborated on design ideas but the improvements to his real estate were made almost entirely at his discretion and largely by himself and his son.

As word spread about the restoration of the building and the plans for a combined Bar and Restaurant and Distillery - the first such combination in the Province in a hundred years -the whole community responded enthusiastically. Residents living nearby and in a few cases, from quite a distance, contacted us to take part. Despite the risk, many individuals expressed an interest in investing in the business as a community project with a long term view. Some offered their labour to help out. Others offered to serve as advisors and Board members. Everyone was aware of the risks and perhaps one day the rewards in the fast growing craft spirits industry. Net Profits were not reasonably expected for at least three years - as was the norm of this business sector.

Construction of the distillery, shop, restaurant, kitchen, bar and event spaces in the building under renovation took over a year. Progress was slow and the opening date was repeatedly pushed back. In hindsight a bigger work crew would have sped up the process, but we had no say in the matter.

Finally, however, the building owner gave us keys in the Fall of 2017 and we swiftly opened our doors after already carrying the wages of some senior staff through the Summer. There was no rent free period. We had missed the lucrative tourist season that we had been counting on for our startup but immediately enjoyed a busy Fall & Christmas launch as we became the hot new destination in the region.

We secured an accomplished Chef to run our kitchen. He was an expensive part of the payroll, but our magical atmosphere we had worked so hard for -and great menu - soon made us the top ranked Restaurant and Bar in the entire Headwaters Region.

Our cocktail bar was the finest north of the city and, along with our food menu, our special drinks made us a major destination and tourist experience.

At the first General Meeting of our Shareholders we celebrated all that we had accomplished. But at that meeting Shareholders also voted not to raise any further working capital through more shares, despite the unsolicited interest that was coming in. Nobody wanted to dilute any of their proportionate ownership with newcomers. This was probably an error, though we didn't see it at the time.

As the original visionaries of GRAND SPIRITS, my husband and I worked tirelessly to grow the business. We performed almost every duty in that building - from entertaining guests, purchasing, serving, marketing, to washing dishes and responding in the middle of the night to alarms in the building. A member of the Board of Directors, once said that Grand Spirits was only a shell of wood and steel without us. We were never compensated for the extraordinarily long hours of labour, administration and meetings, nor did we ask for it. This is to be expected from a small business start up and we understood this. It was hard work and we had to cover many expenses out of pocket.

As with any bar and restaurant, cashflows were challenging from the start. Salaries to staff, utilities and rent left little to carry forward after purchasing food and beverages. Still, with the oversight of our large Board of Shareholders, we began to see our key business ratios for the sector, move in the right direction. But we all recognized it would take time - though losses continued through most months.

The amount of Capital we had raised as Equity at first was impressive, but it was clearly not enough from the beginning. Looking back, we should have raised more and should have levered this with proper bank financing.

Even now as we deal with our Trustee, it is remarkable that we have really no bank debt and no small business loans. This was a mistake. Most businesses borrow money to offset equity. We did not.

In this past Fiscal Year as our operating losses became much smaller and our overall performance steadily improved, our Board of Directors tried valiantly to raise more funds to improve our fluidity. We all worked harder and smarter but many bills lingered. Our Payables grew along with their age, as evidenced by our mostly patient Creditors.

To stem the losses of the Bar and Restaurant, last year's Board of Directors made the difficult decision to close that Business Unit, at first temporarily, during the off season - and then completely - and sublet it. The Board decided to reduce most costs and focus on building the potential of the Distillery business unit itself.

With the assistance of outside experts, who volunteered to help us out, we spent the early Spring of last year mastering our production capabilities, primarily with our already existing equipment. We determined that we could actually produce more than 800 bottles of product per month. This was almost Five times what we had been creating for our first two years of operations.

We also had refined our formulations and recipes to create world class spirits across three categories. They were extremely popular.

This had important implications to our future profitability but also to our viability as a supplier to the LCBO. We were now in a position to pursue a contract with the LCBO and retail our spirits beyond our small distillery store. This would have changed a great deal for our business. In August of last year, the LCBO finally gave us the green light as part of their Ontario Small

Distillery Initiative. We were concerned about the financing of such a contract but the Board was optimistic this would fall into place if we could hold on.

Meanwhile, prior to the LCBO news, we had obtained a signed offer from a regional investor who, independently, understood the potential of our fledgling craft distillery and cocktail tasting bar. At almost a quarter of a million dollars, the new funds would have infused the necessary new capital and initiative necessary to propel the firm and eliminate the Payables holding us back. Our Board reviewed the Offer carefully and we frequently met with the Investor to confirm her vision. The building owner also met with her and seemed enthused as well.

She recognized the value of our recipes and our research and production capabilities that we had spent the first half of 2019 improving upon. These are things that never appear on any Balance Sheet.

For reasons that are still not clear however, the building owner lost interest in her proposal. On August 1st, the landlord changed the locks on our doors and turned off video cameras. We had no access to the premises from that point forward.

An emergency General Meeting was called soon after by the Board, in September. At that meeting, Shareholders decided to cease operations of the Corporation. A Wind Up Committee was charged with the task of securing the company's Assets and to sell them to the highest bidder.

As the building owner refused to allow potential buyers or investors to view any of the inside of GRAND SPIRITS. This was despite considerable interest communicated to the various parties.

After many months, the Committee entered into a transaction with this building owner. This was based on the disputed amount of the leasehold improvements he had done to his own building, by his own labour.

This is essentially the sum which has been provided to the Trustee to work with and is the subject of our Creditor's Meeting today.

We're saddened that so much hard work, vision and commitment has ended up with us here today. We risked much, however the experience of guests, over just three years at GRAND SPIRITS, will endure in memories for many years to come.

