

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF QUALITY RUGS OF CANADA LIMITED AND
OTHER COMPANIES LISTED IN SCHEDULE "A" HERETO

B E T W E E N:

WAYGAR CAPITAL INC., as agent for NINEPOINT CANADIAN SENIOR
DEBT MASTER FUND L.P.

Applicant

and

QUALITY RUGS OF CANADA LIMITED, MALVERN CONTRACT
INTERIORS LIMITED, WESTON HARDWOOD DESIGN CENTRE INC.,
ONTARIO FLOORING LTD., TIMELINE FLOORS INC. and QUALITY
COMMERCIAL CARPET CORPORATION

Respondents

APPLICATION UNDER SUBSECTION 243(1) OF THE *BANKRUPTCY AND
INSOLVENCY ACT*, R.S.C. 1985, c. B-3, AS AMENDED AND SECTION 101 OF THE
COURTS OF JUSTICE ACT, R.S.O. 1990, c. C.43, AS AMENDED

**MOTION RECORD
(returnable October 15, 2024)**

October 9, 2024

LAX O'SULLIVAN LISUS GOTTLIEB LLP
Counsel
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Lawyers for Alvarez & Marsal Canada Securities ULC

TO: **THE SERVICE LIST**

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TAB 1

Court File No. CV-23-0703933-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
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IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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COURTS OF JUSTICE ACT, R.S.O. 1990, c. C.43, AS AMENDED

**NOTICE OF MOTION
(returnable October 15, 2024)**

Alvarez & Marsal Canada Securities ULC ("**Alvarez & Marsal**") will make a Motion to a Judge presiding over the Commercial List on Tuesday, October 15, 2024 at 12:00 p.m., or as soon after that time as the Motion can be heard.

PROPOSED METHOD OF HEARING: The Motion is to be heard

In writing under subrule 37.12.1(1) because it is

[insert on consent, unopposed or made without notice];

In writing as an opposed motion under subrule 37.12.1(4);

In person;

By telephone conference;

By video conference.

using Zoom coordinates to be provided by the Court.

THE MOTION IS FOR

- (a) An Order abridging the time for service and filing of this Notice of Motion;
- (b) An Order directing the Fuller Landau Group Inc., in its capacity as Court-Appointed Receiver over the assets and undertakings of the Applicants (in such capacity, the “**Receiver**”), to pay the September and October 2023 accounts of Alvarez & Marsal; and
- (c) Such further and other Relief as to this Honourable Court may seem just.

THE GROUNDS FOR THE MOTION ARE

- (a) Alvarez & Marsal repeats and relies on the grounds for the motion brought by TDB Restructuring Limited in its capacity as Court-appointed Monitor of the

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Applicants (in such capacity, the “Monitor”) in its notice of motion dated October 1, 2024, to the extent those grounds support Alvarez & Marsal’s motion;

- (b) Alvarez & Marsal also relies on the following additional grounds:
- (c) On February 14, 2023, the Quality Sterling Group of Companies (“**QSG**”) and Waygar Capital Inc. (“**Waygar**”) entered into a credit accommodation and amending agreement (the “**CAAA**”). Among other things, the CCAA provided that QSG would conduct an out-of-court sales and investment solicitation process (“**SISP**”) to seek additional financing by loan or equity injection, sales transaction, or restructuring transaction;
- (d) The CAAA also provided that QSG would retain Alvarez & Marsal to conduct the SISP on terms negotiated with the participation and approval of Waygar. The terms of engagement between QSG and Alvarez & Marsal (the “**Engagement Letter**”) were included as a schedule to the CAAA;
- (e) The Engagement Letter provides, among other things, that:
 - (i) Alvarez & Marsal will conduct the SISP to pursue a potential financing transaction, restructuring transaction, or sale transaction, either in or out of court;
 - (ii) In the event that QSG becomes subject to formal insolvency proceedings, it agrees to seek confirmation of the Engagement Letter by the Court, including ensuring Alvarez & Marsal’s fees and expenses will be paid, and

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it will take no steps to, and oppose any attempt by any third party to, disclaim the Engagement Letter;

- (f) The SISP led to the identification of a potential purchaser of the business and assets of QSG;
- (g) On August 25, 2024, this Court granted an Initial Order placing QSG under the protection of the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36, as amended (the "CCAA"), which was continued pursuant to an Amended and Restated Initial Order granted on September 5, 2024 (the "ARIO");
- (h) Paragraph 38 of the ARIO provides:

THIS COURT ORDERS that the Monitor, counsel to the Monitor, the Applicants' counsel and the Financial Advisor (in respect of their monthly fees and expenses as set out in the A&M Engagement Letter) shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property, other than the Borrower's Account, which charge shall not exceed an aggregate amount of \$750,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, and, in the case of the Financial Advisor, pursuant to the A&M Engagement Letter, for the period from and after August 18, 2023 in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 45 and 47 hereof.

- (i) The "monthly fees and expenses" set out in the Engagement Letter incurred after the granting of the ARIO consist of a monthly "work fee" of \$40,000 per month for the months of September and October 2024 and Alvarez & Marsal's legal fees to enforce the Engagement Letter and ARIO in this proceeding;

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- (j) Alvarez & Marsal provided financial advisory services pursuant to the Engagement Letter in September and October 2024 and presented invoices for those services to QSG. Those invoices remain unpaid;
- (k) In addition, Alvarez & Marsal has incurred over \$90,000 in legal costs, inclusive of HST, on a full indemnity basis to enforce and protect the terms of the Engagement Letter and the ARIO;
- (l) The Monitor has brought a motion returnable October 15, 2024, seeking, among other things, to have its fees paid, to be discharged, and to terminate the Administration Charge;
- (m) It is fair and reasonable for Alvarez & Marsal to receive payment of its monthly fees and reasonable legal expenses, which are protected by the Administration Charge, paid before or concurrent with the termination of the Administration Charge;
- (n) Section 11 of the CCAA;
- (o) Rule 37 of the *Rules of Civil Procedure*, RSO 1990, Reg 194, as amended
- (p) Such further and other grounds as the lawyers may advise.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the Motion:

- (a) The Fifth and Sixth Reports of the Monitor;
- (b) The affidavit of Hugh Rowan-Legg, sworn October xx, 2024; and

- (c) Such further and other evidence as the lawyers may advise and this Honourable Court may permit.

October 9, 2024

LAX O'SULLIVAN LISUS GOTTLIEB LLP
Counsel
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Toronto ON M5H 1J8

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Lawyers for Alvarez & Marsal Canada Securities
ULC

TO: **THE SERVICE LIST**

WAYGAR CAPITAL INC., as agent for NINEPOINT
CANADIAN SENIOR DEBT MASTER FUND L.P.
Applicant

-and- QUALITY RUGS OF CANADA LIMITED et al.
Respondents

Court File No. CV-23-0703933-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDING COMMENCED AT TORONTO

**NOTICE OF MOTION
(returnable October 15, 2024)**

LAX O'SULLIVAN LISUS GOTTLIEB LLP
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Lawyers for Alvarez & Marsal Canada Securities ULC

TAB 2

Court File No. CV-23-0703933-00CL

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DEBT MASTER FUND L.P.

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AFFIDAVIT OF HUGH ROWAN-LEGG

I, Hugh Rowan-Legg, of the City of Toronto, in the Province of Ontario, MAKE OATH
AND SAY:

1. I am a Managing Director and head of Alvarez & Marsal Corporate Finance, and, as such, have knowledge of the matters contained in this Affidavit. Where I do not have personal knowledge, I have so stated, and have indicated the source of my knowledge, information, and belief.

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2. Attached as **Exhibit “A”** is a copy of Quality Sterling Group’s engagement letter with Alvarez & Marsal dated February 1, 2023 (the “**Engagement Letter**”). Among other things, the Engagement Letter provides for payment of a monthly work fee of \$50,000 for the first three months and \$40,000 plus HST for each month thereafter for which Alvarez & Marsal is providing services to Quality Sterling Group (“**QSG**”). The Engagement Letter also provides for payment of Alvarez & Marsal’s reasonable out-of-pocket expenses, including reasonable counsel fees.

3. After this Court granted an Amended and Restated Initial Order on September 5, 2023, Alvarez & Marsal delivered two invoices to the Applicants for services it provided in September and October 2023 (the “**Invoices**”), each in the amount of \$40,000 plus HST. Attached as **Exhibit “B”** are copies of the Invoices.

4. The Invoices, which total \$90,400, inclusive of HST, have not been paid.

5. In addition to the unpaid Invoices, Alvarez & Marsal has incurred over \$60,000 in costs, inclusive of HST, to defend its interests in the CCAA proceeding from August to October 2023. Attached as **Exhibit “C”** are copies of the first page of the invoices from Lax O’Sullivan Lissus Gottlieb LLP, Alvarez & Marsal’s counsel in this proceeding, from August 2023 to October 2023.

6. These costs are mostly related to legal fees incurred in August 2023, when Alvarez & Marsal faced opposition to having its potential success fee protected in the Initial Order and Amended and Restated Initial Order through a Financial Advisor’s Charge. The Financial Advisor’s Charge was ultimately included in the Initial Order and Amended and Restated Initial

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Order due to, among other things, Alvarez & Marsal’s counsel’s efforts to advocate in favour of the outcome.

7. I understand from reviewing the motion record of TDB Restructuring Limited (the “**Monitor**”) that the Monitor intends to bring a motion returnable October 15, 2024, seeking, among other things, a discharge of the Monitor, payment of its fees, and termination of the Administration Charge in this CCAA Proceeding.

8. The Administration Charge not only protects the Monitor’s fees and expenses, it also protects the monthly fees and reasonable expenses of Alvarez & Marsal in accordance with the terms of the Engagement Letter. Alvarez & Marsal seeks payment of its unpaid work fees and a reasonable amount of its legal fees before the administration charge is terminated.

SWORN by Hugh Rowan-Legg of the City of Toronto, in the Province of Ontario, before me at the City of Toronto, in the Province of Ontario, on October 9, 2024 in accordance with O. Reg. 431/20, *Administering Oath or Declaration Remotely*.



Commissioner for Taking Affidavits
(or as may be)

ANDREW WINTON



HUGH ROWAN-LEGG

This is Exhibit “A” referred to in the Affidavit of Hugh Rowan-Legg sworn by Hugh Rowan-Legg of the City of Toronto, in the Province of Ontario, before me at the City of Toronto, in the Province of Ontario, on October 9, 2024 in accordance with O. Reg. 431/20, *Administering Oath or Declaration Remotely*.



Commissioner for Taking Affidavits (or as may be)

ANDREW WINTON



February 1, 2023

John Pacione, Co-Chief Executive Officer
Quality Sterling Group
505 Cityview Blvd,
Woodbridge, ON
L4H 0L8

Dear Mr. Pacione:

This letter confirms and sets forth the terms and conditions of the engagement between Alvarez & Marsal Canada Securities ULC ("A&M") and Quality Sterling Group ("QSG" or the "Company"), including the scope of the services to be performed and the basis of compensation for those services. Upon execution of this letter by each of the parties below, this letter will constitute an agreement between QSG and A&M (the "Agreement").

1. Description of Engagement and Services.

The Company hereby engages A&M as its financial advisor with respect to evaluating and pursuing a potential Financing Transaction, Restructuring Transaction or Sale Transaction (as defined below, each a "Transaction"), effective as of the date hereof (the "Effective Date"). As part of our engagement, A&M will, if appropriate and requested perform the following services:

- i. Should the Company seek a Financing Transaction and/or Sale Transaction, advise and assist the Company in executing such Financing Transaction and/or Sale Transaction, including but not limited to;
 - a. Prepare, in collaboration with the Company, a confidential Information Memorandum or similar document and other relevant informational materials;
 - b. Identify and contact on a confidential basis and subject to NDA arrangements acceptable to the Company, prospective investors and solicit and assist in evaluating indications of interest & proposals among prospective investors;
 - c. Coordinate the Company's response to potential investors' due diligence investigations;
 - d. Assist in structuring and negotiating the financing and/or sale and the terms of the securities/consideration; and

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- e. Assist in matters associated with closing the Financing Transaction and/or Sale Transaction generally provided by financial advisors;

A&M understands that the Company's preferred outcome is to complete an out of court Financing Transaction or Sale Transaction.

- ii. Should the Company seek a Restructuring Transaction, advise and assist the Company in executing such Restructuring Transaction, including but not limited to;
 - a. Assist with the formulation and evaluation of various restructuring scenarios and the potential impact of those scenarios on the recoveries of stakeholders;
 - b. Assist the Company in negotiations with creditors, shareholders and other appropriate parties-in-interest and implementation of various strategic alternatives including; restructuring, financing, reorganization, merger, or sale of the Company, or its assets or businesses;
 - c. Assist the Company in analyzing, structuring, negotiating and effecting a Restructuring Transaction; and
 - d. If necessary, provide investment banking and financial advisory services to support the Company in connection with the Company's and its advisors' efforts to develop and implement a Restructuring Transaction;
- iii. Provide any other investment banking and financial advisory services reasonably necessary to accomplish the foregoing and consummate a transaction as requested by the Company and agreed to by A&M from time to time.

For purposes of this Agreement, each of the following transactions shall constitute a "Financing Transaction":

- i. any refinancing of all or a material portion of the Company's or its affiliates' Indebtedness (as defined below); and/or
- ii. the raising or issuance of any form of new equity or debt financing from any source by the Company or any affiliate or subsidiary of the Company or any entity formed by, or at the direction of, the Company or any such majority-owned subsidiary or affiliate.
- iii. Notwithstanding the above, any debtor in possession ("DIP") or exit financing done in connection with a Restructuring of this company under the Companies' Creditors Arrangement Act or Bankruptcy and Insolvency Act

(Canada), regardless of the source of the financing, shall constitute a Financing Transaction.

For purposes of this Agreement, the term "Sale Transaction" is defined to include any of the following (whether in one or a series of transactions): (a) a merger or consolidation of the Company and/or any of its material businesses, subsidiaries or affiliates (b) a sale of at least 50% of the equity securities of the Company (whether from the Company or security holders of the Company) or any material business, subsidiary or affiliate of the Company (whether from such business, subsidiary, affiliate or the Company), in any case whether by sale, exchange, tender offer or otherwise, (c) any transaction which results in a third party having the right to elect a majority of the members of the Board or similar governing body of the Company or any of its subsidiaries or affiliates, (d) a sale of the Company that is consummated through a sale of all or substantially all of its assets or its subsidiaries, (e) a liquidation of the Company or any of its material businesses, subsidiaries or affiliates, (f) any other form of disposition which results in the effective disposition of all or a substantial amount of the business, operations, or assets of the Company or any of its businesses, subsidiaries or affiliates. For the avoidance of doubt, a Sale Transaction shall include (g) any other form of disposition which results in the effective disposition of all or a substantial amount of the business, operations, or assets of the Company or any of its businesses, subsidiaries or affiliates, or (i) any scenario where a key customer or any third party creates a joint venture that provides financial support, whether through a Financing Transaction, or a change in commercial strategy, or through other means, resulting in a transaction that changes the prospects of the business. For the avoidance of doubt, all joint venture and significant business transactions shall be included.

For the purposes of this Agreement, a "Restructuring Transaction" shall be defined as any single transaction or series of transactions that effectuates any (a) modification, amendment to, or change in, any of the Company's and/or any of its businesses, subsidiaries' or affiliates' payment obligations and/or institutional indebtedness for borrowed money, including accrued and/or accreted interest thereon ("Indebtedness"), (b) disposition of all or substantially all of the business operations or assets of the Company or any of its businesses, subsidiaries or affiliates or (c) change of control of the Company. This includes, without limitation, senior bank debt and subordinated debt. Such modification, amendment, or change shall include, without limitation, any transaction(s) which provide for: any material modification, amendment or change of, or in, principal balance, accrued or accreted interest, payment term, or other debt service requirement; any maturity extension / forbearance for at least twelve (12) months with respect to any payment obligation; conversion to equity, or some other security instrument, of all, or a material portion of, such Indebtedness; any compromise of the existing terms of such Indebtedness; any combination of the foregoing transactions. Each of the foregoing shall include, without limitation, any transaction in which requisite consents to a reorganization or restructuring are obtained pursuant to a tender offer, exchange offer, consent solicitation or other process.

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In the event that the Company becomes subject to formal insolvency proceedings, the Company agrees to seek confirmation of this Agreement by the Court forthwith, including ensuring that A&M's fees and expenses (including transaction-based compensation) will be paid in such a scenario, and will take no steps to, and will oppose any attempt by any third party to, disclaim this Agreement. It is recognized by both the Company and A&M that to the extent the Company determines it is in its best interests to file for protection from its creditors, whether the purpose of such filing is to consummate a Transaction or otherwise, that A&M will not be appointed as the proposal trustee or monitor, as the case may be.

It is understood and agreed that nothing contained herein shall constitute an expressed or implied commitment by A&M to underwrite, place, or purchase any financing or securities. The scope of A&M services shall not include delivery of a fairness opinion with respect to any transaction.

The Company authorizes A&M to provide the Confidential Information Memorandum (as amended and supplemented and including any information incorporated therein by reference, the "Information Memorandum") and other relevant information to prospective investors.

The Company shall have the right, in its sole discretion, to accept or reject any Transaction offer or any prospective investors. The Company shall also have the right to approve prospective investors, in what manner they are to be contacted and at what point in time such contact may be made with each such prospective investor.

The Company agrees to promptly inform A&M of any inquiry it receives regarding a Transaction so that A&M can evaluate such party and its interest in a Transaction.

The Company understands that the services to be rendered by A&M may include providing the Company with assistance in the preparation of projections and other forward-looking statements regarding the Company and / or its businesses, subsidiaries or affiliates, and numerous factors can affect the actual results of the Company and / or its businesses, subsidiaries or affiliates, which may materially and adversely differ from those projections.

A&M understands that the Company and its lender are targeting the following milestones. A&M and the Company agree that achieving these milestones depends on a number of factors outside of A&M's control, including the Company's ability to provide required information to A&M on a timely basis and the prevailing capital market conditions over the time period.

Information Memorandum and
teaser circulated to list of identified
parties

February 22, 2023



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Deadline to receive letters of intent	March 31, 2023
Binding offer	April 28, 2023
Closing of transaction	May 12, 2023

A&M and the Company agree that achieving these milestones depends on a number of factors that are outside of A&M's control, including the ability of the Company to provide required information to A&M on a timely basis and the prevailing capital market conditions over the time period.

A&M makes no representation whatsoever that an appropriate Transaction can or will be formulated, that any Transaction in general or that any transaction in particular is the best course of action for the Company. Further A&M assumes no responsibility for the selection and approval of any Transaction presented to the Company, this determination shall rest strictly with the Company.

The Company agrees that it will be solely responsible for ensuring that any Transaction comply with applicable law.

The Company will be solely responsible for the contents of the Information Memorandum and any and all other written or oral communications provided by or on behalf of the Company to any prospective investors and/or any other party in connection with a potential Transaction. The Company represents and warrants that the Information Memorandum and such other communications will not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading. If an event occurs as a result of which the Information Memorandum (or any other distributed materials) would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading, the Company will promptly notify A&M and A&M will suspend solicitations of prospective investors until such time as the Company prepares a supplement or amendment to the Confidential Information Memorandum (or otherwise) that corrects such statement(s) and/or omission(s).

In connection with A&M's engagement, QSG will furnish A&M with all information concerning QSG which A&M reasonably deems appropriate and will provide A&M with access to QSG's officers, directors, employees, accountants, counsel and other representatives (collectively, the "Representatives"). It is understood that A&M will rely solely upon the information supplied by QSG and its' Representatives without assuming any responsibility for independent investigation or verification thereof. QSG represents and warrants that any financial projections provided to A&M have been, or will be, prepared on a basis reflecting the best currently available estimates and judgments of the future financial results and condition of QSG. QSG will, in writing, promptly notify A&M of any material inaccuracy or misstatement in, or material omission from, any



information previously delivered to A&M or any interested party. QSG authorizes A&M to contact QSG professional advisors, which in A&M's discretion is deemed appropriate in connection with this engagement

In rendering its services to QSG, A&M will report directly to the Co-Chief Executive Officer and will make recommendations to and consult with the Co-Chief Executive Officer and such senior officers as the Co-Chief Executive Officer directs.

Hugh Rowan-Legg, a Managing Director of A&M, will be responsible for the overall engagement and will be assisted by other A&M personnel, as appropriate. A&M personnel providing services to QSG may also work with other A&M clients in conjunction with unrelated matters. In connection with the services to be provided hereunder, from time to time A&M may utilize the services of employees of its affiliates (as defined below). Such affiliates are wholly owned by A&M's parent company and A&M's employees.

For the purposes of this Agreement, "affiliate" means, with respect to any specified person, any other person directly or indirectly controlling, controlled by or under common control with such specified person. For purposes of this definition, the terms "controlling," "controlled by" or "under common control with" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise, or the power to elect at least 50% of the directors, managers, general partners, or persons exercising similar authority with respect to such person.

QSG understands that A&M is not undertaking to provide any legal, regulatory, accounting, insurance, tax or similar professional advice. It is further understood and agreed that A&M's services will not include the preparation of a due diligence report, presentation or otherwise for QSG, and that A&M's services will not include the rendering of a fairness opinion. If you should request additional services not otherwise contemplated by this Agreement, QSG and A&M will enter into an additional letter agreement which will set forth the nature and scope of the services, appropriate compensation and other customary matters, as mutually agreed upon by QSG and A&M.

2. Compensation.

As compensation for our services hereunder, A&M will be paid as follows:

(a) Work Fees:

A monthly work fee (the "Work Fee") of \$50,000 per month for the first 3 months, to be paid at the rate of \$50,000 per month and paid monthly in advance, starting with the first payment immediately upon the execution of this Agreement and \$40,000 per month thereafter upon the presentation of an invoice. All Work Fees paid will be non-refundable. To the extent paid, Work Fees totalling a maximum of \$100,000 will be credited against any Transaction Fee.

(b) Transaction Fee(s):

In addition to the other fees provided for herein, the Company shall pay A&M the following transaction fee(s) (collectively, the “Transaction Fee(s)”):

i. Financing Transaction Fee:

Concurrently with the close of any Financing Transaction, A&M shall earn, and the Company shall thereupon pay concurrently with the closing and from the proceeds of such Financing Transaction, as a cost of financing, a Financing Transaction Fee (“Financing Transaction Fee”) of 2.5% of the amount debt raised or committed and 5.0% of the amount of equity raised or committed. The Financing Transaction Fee will be subject to a minimum of \$600,000, unless such Financing Transaction Fee is purely in connection with the procurement of DIP financing, in which case the same percentages stipulated herein shall apply, but there shall be a minimum fee of \$200,000.

For the purposes of calculating the Financing Transaction Fee, debt will include but not be limited to any senior, subordinated and mezzanine debt, and equity will include but not be limited to convertible securities, preferred stock, common equity and any capital with equity-linked securities.

ii. Sale Transaction Fee:

Concurrently with the closing of a Sale Transaction, A&M shall earn, and the Company shall thereupon pay immediately and directly from the proceeds of such Sale Transaction, as a cost of such transaction, a fee (the “Sale Transaction Fee”) equal to the greater of i) 750,000; and ii) 3.0% of the Aggregate Gross Consideration (as defined below).

iii. Restructuring Transaction Fee:

A fee equal to \$750,000 (the “Restructuring Transaction Fee”), earned and paid upon the earlier of (i) consummation of a Restructuring Transaction and (ii) in the event the Company attempts to implement a Restructuring Transaction, in whole or in part by means of an exchange offer, then upon closing of the exchange offer. For the purpose of (i) above, consummation of a Restructuring Transaction shall mean the closing of such transaction with binding execution and effectiveness of all necessary waivers, consents, amendments or restructuring agreements between the Company and its creditors necessary to effectuate such Restructuring Transaction.

- (b) In addition to the fees described above, and regardless of whether or not any transaction contemplated by this Agreement shall be proposed or consummated, the Company agrees to promptly reimburse A&M, on a monthly basis, for all out-of-pocket expenses reasonably incurred by A&M in connection with the matters contemplated by this Agreement, including, without limitation, reasonable fees of counsel and travel and

- 8 -

lodging expenses. Any out-of-pocket expense greater than \$1,000 will be pre-approved with the Company in advance.

- (c) All provisions in this Section 2 are in addition to any protections or remedies afforded to A&M at law or by statute.

- (a) All fees will be subject to applicable taxes.

For purposes of this agreement, the term “Aggregate Gross Consideration” shall mean the total fair market value (at the time of closing) of all consideration, including, without duplication or limitation, cash, notes, securities and property; payments made in installments; amounts payable under above-market consulting agreements, above-market lease agreements, above-market employment contracts, non-compete agreements or similar arrangements (with the fair market value of amounts paid under consulting agreements, lease agreements, and employment and similar agreements being excluded from Aggregate Gross Consideration); and Contingent Payments (as defined below), paid or payable, or otherwise to be distributed, directly or indirectly, to the Company, the Company’s subsidiaries or affiliates or the Company’s stockholders, plus all indebtedness assumed by the purchaser of assets of the Company and / or any of its businesses, subsidiaries or affiliates or from which the Company or any of its businesses, subsidiaries or affiliates is relieved in connection with a Sale Transaction. If any portion of the Aggregate Gross Consideration is payable in the form of securities, the value of such securities, for purposes of calculating our Sale Transaction Fee, will be determined based on the average closing price for such securities for the five trading days prior to the closing of the Sale Transaction. In the case of securities that do not have an existing public market, Aggregate Gross Consideration will be determined based on the fair market value of such securities as mutually agreed upon in good faith by the Company and A&M prior to the closing of the Sale Transaction. Contingent Payments shall be defined as the fair market value of consideration received or receivable by the Company, its employees, former or current equity holders and/or other parties, in the form of deferred, performance-based payments, “earn-outs”, or other contingent payments based on future performance of the Company or any of its businesses or assets.

Aggregate Gross Consideration shall be calculated by calculating the amount owing as if 100% of the equity interests of the Company had been sold by dividing (i) the total consideration, whether in cash, securities, notes or other forms of consideration, received or receivable by the Company and/or its creditors and equity holders by (b) the percentage of ownership sold. In addition, if any of the Company’s interest-bearing liabilities are assumed, decreased, or paid off in conjunction with a Sale Transaction, or any of the Company’s assets are retained, sold or otherwise transferred to another party prior to the consummation of a Sale Transaction, the Aggregate Gross Consideration will be increased to reflect the fair market value of any such assets or interest-bearing liabilities.



3. Term.

Subject to what follows, the Agreement may be terminated with immediate effect by either party without cause by giving 30 days' written notice to the other party. In the event that there are no letters of intent received by the date specified herein for receipt of same, or that there is no interest on the part of the Company to pursue any letter of intent received, then this Agreement may be terminated immediately without the need for 30 days' notice. In the event of any termination, any reasonable and documented fees and expenses due to A&M shall be remitted to A&M promptly in accordance with the terms and conditions set forth in this Agreement (including fees and expenses that accrued prior to such termination).

The Company may also immediately terminate this Agreement for Cause (as defined below) by giving written notice to A&M. For purposes of this agreement, "Cause" shall mean gross negligence, willful default, or fraud by A&M.

A&M may also terminate this Agreement immediately upon notice for Good Reason. For purposes of this Agreement, termination for "Good Reason" shall mean the Company's misrepresentation of or failure to disclose material facts, failure to pay fees or expenses when due (or circumstances indicating to A&M that fees or expenses will not be paid when due), circumstances such that it is unethical or unreasonably difficult for A&M to continue performance of the engagement, or other just cause.

In addition, if this Agreement is terminated for any reason, other than by the Company with Cause or by A&M without Good Reason, and prior thereto or within twelve (12) months of the termination (the "Tail Period") any Transaction is consummated, or an agreement in principle is entered into to engage in any Transaction (which subsequently closes), A&M shall be entitled to receive its applicable Transaction Fee(s) upon the consummation of such Transaction(s) as if no termination had occurred if the Transaction is consummated with a party: i) who was introduced to the Company by A & M or ii) who contacted the Company expressing interest in the opportunity during the term of A&M's engagement; or iii) who was the subject of any advice provided to the Company by A&M during the term of A&M's engagement, including purchasers or investors that were proposed by A&M, but were not subsequently approved for contact by the Company.

No expiration or termination of this Agreement shall affect (a) the Company's indemnification, reimbursement, contribution or other obligations set forth in this Agreement, (b) A&M's right to receive, and the Company's obligation to pay, any and all fees and expenses due, whether or not any Transaction is consummated prior to or subsequent to the effective date of termination of this Agreement. The provisions of this Agreement that give the parties rights or obligations beyond its termination shall survive and continue to bind the parties.

4. Relationship of the Parties.

The parties intend that an independent contractor relationship will be created by this engagement letter. Neither A&M nor any of its personnel or subcontractors is to be considered an employee or agent of QSG. QSG acknowledges that A&M's engagement shall not constitute an audit, review or compilation, or any other type of financial statement reporting engagement that is subject to generally accepted accounting principles or the rules of any provincial, territorial or national professional or regulatory body. Accordingly, while the information gathered will be reviewed for reasonableness, A&M's work will not necessarily identify any errors or irregularities, if such exist, on the part of QSG or its officers or employees. Furthermore, A&M is entitled to rely on the accuracy and validity of the data disclosed to it or supplied to it by agents, advisors, employees and representatives of QSG. A&M is under no obligation to update data submitted to it or review any other areas unless specifically requested by QSG to do so. QSG agrees and acknowledges that the services to be rendered by A&M may include the assistance in the preparation and review of projections, forecasts and other forward-looking statements, and numerous factors can affect the actual results of QSG's operations, which may materially and adversely differ from those projections, forecasts and other forward-looking statements. A&M makes no representation or guarantee that any business plan or refinancing alternative is the best course of action. A&M shall not be required to certify any financial statements or information or to provide representations with respect therewith in connection with any audit or securities law disclosure documents. For greater certainty, during the course of this engagement, A&M shall be acting as a consultant to QSG in this matter and A&M shall not be assuming any decision making or other management responsibilities in connection with the affairs of QSG and A&M shall have no responsibility for the affairs of QSG during this engagement. In addition, A&M shall not do anything or perform any act pursuant to which A&M assumes any possession or control of the property, assets, undertakings, premises or operations of QSG for any purpose whatsoever.

5. No Third-Party Beneficiary.

QSG acknowledges that all advice (written or oral) given by A&M to QSG in connection with this engagement is intended solely for the benefit and use of QSG (limited to its Board and management) in considering the matters to which this engagement relates. QSG agrees that no such advice shall be used for any other purpose or reproduced, disseminated, quoted or referred to at any time in any manner or for any purpose other than accomplishing the tasks referred to herein without A&M's prior approval (which shall not be unreasonably withheld), except as required by law.

6. Conflicts.

A&M is not currently aware of any relationship that would create a conflict of interest with QSG or those parties-in-interest of which you made us aware. Because A&M is a consulting firm that serves clients on an international basis in numerous cases, both in and out of court, it is possible that A&M may have rendered or will render services to or have business associations with other entities or people which had or have or may have

relationships with QSG, including creditors of QSG. In the event you accept the terms of this engagement, A&M will not represent, and A&M has not represented, the interests of any such entities or people in connection with this matter.

7. Confidentiality.

A&M shall keep as confidential all non-public information received from QSG in conjunction with this engagement, except: (i) as requested by QSG or its legal counsel; (ii) as required by legal proceedings; or (iii) as reasonably required in the performance of this engagement. All obligations as to non-disclosure shall cease as to any part of such information to the extent that such information is or becomes public other than as a result of a breach of this provision.

8. Non-Solicitation.

QSG, on behalf of itself, its subsidiaries and affiliates and any person (as such term is defined under the *Canada Business Corporations Act*) which may acquire all or substantially all of its assets, agrees that, until two years subsequent to the termination of this Agreement, it will not solicit, recruit, hire or otherwise engage any employee of A&M or its affiliates who worked on this engagement while employed by A&M or its affiliates ("Solicited Person"). Should QSG, any of its subsidiaries or affiliates or any person who acquires all or substantially all of its assets extend an offer of employment to or otherwise engage any Solicited Person and should such offer be accepted, A&M shall be entitled to a fee from the party extending such offer equal to the Solicited Person's hourly client billing rate at the time of the offer multiplied by 4,000 hours for a Managing Director, 3,000 hours for a Senior Director and 2,000 hours for any other A&M employee. The fee shall be payable at the time of the Solicited Person's acceptance of employment or engagement.

9. Indemnification.

The indemnification provisions, attached hereto as Exhibit A, are incorporated herein by reference and the termination of this Agreement or the engagement shall not affect those provisions, which shall survive termination. Furthermore, all those provisions contained in Exhibit A are in addition to any protections or remedies afforded to A&M at law or by statute.

As to the services QSG has requested and A&M has agreed to provide as set forth in this Agreement, the total aggregate liability of A&M under this Agreement to QSG and its successors and assigns, shall be limited to the actual damages incurred by QSG or its successors or assigns, respectively. In no event will A&M or any of its affiliates be liable to QSG or their successors or assigns for consequential, special or punitive damages, including loss of profit, data, business or goodwill. In no event shall the total aggregate liability of A&M under this Agreement to QSG and their successors and assigns exceed the total amount of fees received and retained by A&M hereunder.

10. Data Hosting

From time to time, as an accommodation to QSG, A&M as directed by QSG may arrange for a third party data hosting provider (i.e., Firmex or Intralinks) (the "Provider") to host documents and information relating to this engagement in a web/data room environment for QSG's and/or certain authorized parties review. For QSG's convenience, the Provider's service is generally provided based upon an agreement between A&M and the Provider to which QSG is not a party. Notwithstanding anything herein, it is understood and agreed that A&M does not warrant and is not responsible for the Provider's conduct and services. Otherwise, should QSG wish to arrange for a direct agreement with a Provider, A&M is happy to assist in that pursuit.


11. Miscellaneous.

Depending on future developments the spread of the Coronavirus has the potential to affect the services provided under this Agreement. Travel, work place and mobility restrictions (to include measures reasonably mandated by A&M with respect to its employees and personnel) may restrict travel to the Company and other work sites as well as limit access to facilities, infrastructure, information and personnel of A&M, the Company or others. Such circumstances may adversely affect the timetable or content of A&M's deliverables and completion of the scope of services included in this Agreement. A&M will discuss with the Company if A&M believes that the services may be impacted in this way. The Company accepts and acknowledges that A&M employees and personnel may attend at the Company's locations or physically interact with the Company's employees and personnel in connection with the services, unless A&M or the Company decide that this should not be the case.

This Agreement (together with the attached indemnity provisions): (a) shall be governed and construed in accordance with the laws of the Province of Ontario applicable therein without giving effect to such province's rules concerning conflicts of laws that might provide for any other choice of law; (b) incorporates the entire understanding of the parties with respect to the subject matter hereof; (c) may not be amended or modified except in writing executed of the parties hereto; (d) may be executed by facsimile and in counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same agreement; and (e) notwithstanding anything herein to the contrary, A&M may reference or list QSG's name and/or a general description of the services in A&M's marketing materials, including, without limitation, on A&M's website.

If the foregoing is acceptable to you, kindly sign the enclosed copy to acknowledge your agreement with its terms.

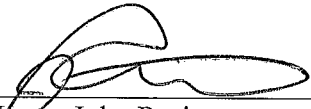
Very truly yours,
Alvarez & Marsal Canada Securities
ULC

By: 

Hugh Rowan-Legg
Managing Director

Accepted and agreed:

Quality Sterling Group

By: 

Name: John Pacione
Title: Co-Chief Executive Officer





EXHIBIT A

Indemnity Provisions

- A. QSG agrees to indemnify and hold harmless each of A&M, its affiliates and their respective shareholders, managers, members, employees, agents, representatives and subcontractors (each, an "Indemnified Party" and collectively, the "Indemnified Parties") against any and all losses, claims, damages, liabilities, penalties, obligations, disbursements and expenses, including the costs (fees and disbursements) for counsel or others (including employees of A&M, based on their then current hourly billing rates) in investigating, preparing or defending any action or claim, whether or not in connection with litigation in which any Indemnified Party is a party, or enforcing the Agreement (including these indemnity provisions), as and when incurred, caused by, relating to, based upon or arising out of (directly or indirectly) the Indemnified Parties' acceptance of or the performance or nonperformance of their obligations under the Agreement; provided, however, such indemnity shall not apply to any such loss, claim, damage, liability or expense to the extent it is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily and directly from such Indemnified Party's gross negligence or willful misconduct. QSG also agrees that no Indemnified Party shall have any liability (whether direct or indirect, in contract or tort or otherwise) to QSG for or in connection with the engagement of A&M, except to the extent for any such liability for losses, claims, damages, liabilities or expenses that are found in a final judgment by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily and directly from such Indemnified Party's gross negligence or willful misconduct. QSG further agrees that it will not, without the prior consent of an Indemnified Party, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which such Indemnified Party seeks indemnification hereunder (whether or not such Indemnified Party is an actual party to such claim, action, suit or proceeding) unless such settlement, compromise or consent includes an unconditional release of such Indemnified Party from all liabilities arising out of such claim, action, suit or proceeding.
- B. These indemnification provisions shall be in addition to any liability which QSG may otherwise have to the Indemnified Parties. In the event that, at any time whether before or after termination of the engagement or the Agreement, as a result of or in connection with the Agreement or A&M's and its personnel's role under the Agreement, A&M or any Indemnified Party is required to produce any of its personnel (including former employees) or for examination, discovery, deposition or other written, recorded or oral presentation, or A&M or any of its personnel (including former employees) or any other Indemnified Party is required to produce or otherwise review, compile, submit, duplicate, search for, organize or report on any material within such Indemnified Party's possession or control pursuant to a subpoena or other legal (including administrative) process, QSG will reimburse the Indemnified Party for its out of pocket expenses, including the reasonable fees and expenses of its counsel, and will compensate the Indemnified Party for the time expended by its personnel based on such personnel's then current hourly rate.

- C. If any action, proceeding or investigation is commenced to which any Indemnified Party proposes to demand indemnification hereunder, such Indemnified Party will notify QSG with reasonable promptness; provided, however, that any failure by such Indemnified Party to notify QSG will not relieve QSG from its obligations hereunder, except to the extent that such failure shall have actually prejudiced the defense of such action. QSG shall promptly pay expenses reasonably incurred by any Indemnified Party in defending, participating in, or settling any action, proceeding or investigation in which such Indemnified Party is a party or is threatened to be made a party or otherwise is participating in by reason of the engagement under the Agreement, upon submission of invoices therefor, whether in advance of the final disposition of such action, proceeding, or investigation or otherwise. Each Indemnified Party hereby undertakes, and QSG hereby accepts its undertaking, to repay any and all such amounts so advanced if it shall ultimately be determined that such Indemnified Party is not entitled to be indemnified therefor. If any such action, proceeding or investigation in which an Indemnified Party is a party is also against QSG, QSG may, in lieu of advancing the expenses of separate counsel for such Indemnified Party, provide such Indemnified Party with legal representation by the same counsel who represents QSG, provided such counsel is reasonably satisfactory to such Indemnified Party, at no cost to such Indemnified Party; provided, however, that if such counsel or counsel to the Indemnified Party shall determine that due to the existence of actual or potential conflicts of interest between such Indemnified Party and QSG such counsel is unable to represent both the Indemnified Party and QSG, then the Indemnified Party shall be entitled to use separate counsel of its own choice, and QSG shall promptly advance its reasonable expenses of such separate counsel upon submission of invoices therefor. Nothing herein shall prevent an Indemnified Party from using separate counsel of its own choice at its own expense. QSG will be liable for any settlement of any claim against an Indemnified Party made with QSG's written consent, which consent shall not be unreasonably withheld.
- D. In order to provide for just and equitable contribution if a claim for indemnification pursuant to these indemnification provisions is made but it is found in a final judgment by a court of competent jurisdiction (not subject to further appeal) that such indemnification may not be enforced in such case, even though the express provisions hereof provide for indemnification, then the relative fault of QSG, on the one hand, and the Indemnified Parties, on the other hand, in connection with the statements, acts or omissions which resulted in the losses, claims, damages, liabilities and costs giving rise to the indemnification claim and other relevant equitable considerations shall be considered; and further provided that in no event will the Indemnified Parties' aggregate contribution for all losses, claims, damages, liabilities and expenses with respect to which contribution is available hereunder exceed the amount of fees actually received by the Indemnified Parties pursuant to the Agreement. No person found liable for a fraudulent misrepresentation shall be entitled to contribution hereunder from any person who is not also found liable for such fraudulent misrepresentation.
- E. In the event QSG and A&M seek judicial approval for the assumption of the Agreement or authorization to enter into a new engagement agreement pursuant to either of which A&M would continue to be engaged by QSG, QSG shall promptly pay expenses reasonably incurred by the Indemnified Parties, including attorneys' fees and expenses, in

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connection with any motion, action or claim made either in support of or in opposition to any such retention or authorization, whether in advance of or following any judicial disposition of such motion, action or claim, promptly upon submission of invoices therefor and regardless of whether such retention or authorization is approved by any court. QSG will also promptly pay the Indemnified Parties for any expenses reasonably incurred by them, including attorneys' fees and expenses, in seeking payment of all amounts owed to it under the Agreement (or any new engagement agreement) whether through submission of a fee application or in any other manner, without offset, recoupment or counterclaim, whether as a secured claim, an administrative expense claim, an unsecured claim, a prepetition claim or a postpetition claim.

- F. Neither termination of the Agreement nor termination of A&M's engagement nor the filing of a petition or application under the *Companies' Creditors Arrangement Act* or *Bankruptcy and Insolvency Act* (Canada) (nor the conversion of an existing case to a different form of proceeding, including a receivership) shall affect these indemnification provisions, which shall hereafter remain operative and in full force and effect.
- G. The rights provided herein shall not be deemed exclusive of any other rights to which the Indemnified Parties may be entitled under the certificate of incorporation or by-laws of QSG, any policy of insurance, any other agreements, any vote of shareholders or disinterested directors of QSG, any applicable law or otherwise.

By:

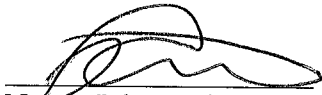


 Hugh Rowan-Legg
 Title: Managing Director

Accepted and agreed:

Quality Sterling Group

By:



 Name: John Pacione
 Title: Co-Chief Executive Officer

This is Exhibit “B” referred to in the Affidavit of Hugh Rowan-Legg sworn by Hugh Rowan-Legg of the City of Toronto, in the Province of Ontario, before me at the City of Toronto, in the Province of Ontario, on October 9, 2024 in accordance with O. Reg. 431/20, *Administering Oath or Declaration Remotely*.



Commissioner for Taking Affidavits (or as may be)

ANDREW WINTON



September 12, 2023

Quality Sterling Group
505 Cityview Blvd.
Woodbridge, ON
L4H 0L8

Attention: Mr. J. Pacione, Co-Chief Executive Officer

**RE: QUALITY STERLING GROUP (the “Company”)
INVOICE #8 (843761)**

In connection with our engagement as Financial Advisor to the Company as per the letter agreement dated February 1, 2023 – Work Fee #8.

Work Fee #8	\$40,000.00
Add: HST @ 13%	5,200.00
TOTAL DUE	\$45,200.00

Mailing Instructions:

Alvarez & Marsal Canada ULC
Attn: A. Singels-Ludvik
Royal Bank Plaza, South Tower
200 Bay Street, Suite 2900
P.O. Box 22
Toronto, ON M5J 2J1

Wiring Instructions:

Bank: TD Canada Trust
Account Name: Alvarez & Marsal Canada Securities ULC
Swiftcode: TDOMCATTOR
Bank Address: 55 King Street West
Toronto, ON
Bank Transit #: 10202
Institution #: 0004
Account #: 5410766
Reference #: Quality Sterling –Work Fee #8 (843761)
HST#: 84041 8404 RT0001



October 4, 2023

Quality Sterling Group
505 Cityview Blvd.
Woodbridge, ON
L4H 0L8

Attention: Mr. J. Pacione, Co-Chief Executive Officer

**RE: QUALITY STERLING GROUP (the “Company”)
INVOICE #9**

In connection with our engagement as Financial Advisor to the Company as per the letter agreement dated February 1, 2023 – Work Fee #9.

Work Fee #1	\$40,000.00
Add: HST @ 13%	<u>5,200.00</u>
TOTAL DUE	<u><u>\$45,200.00</u></u>

Mailing Instructions:

Alvarez & Marsal Canada ULC
Attn: A. Singels-Ludvik
Royal Bank Plaza, South Tower
200 Bay Street, Suite 2900
P.O. Box 22
Toronto, ON M5J 2J1

Wiring Instructions:

Bank: TD Canada Trust
Account Name: Alvarez & Marsal Canada Securities ULC
Swiftcode: TDOMCATTOR
Bank Address: 55 King Street West
Toronto, ON
Bank Transit #: 10202
Institution #: 0004
Account #: 5410766
Reference #: Quality Sterling –Work Fee #9
HST#: 84041 8404 RT0001

This is Exhibit “C” referred to in the Affidavit of Hugh Rowan-Legg sworn by Hugh Rowan-Legg of the City of Toronto, in the Province of Ontario, before me at the City of Toronto, in the Province of Ontario, on October 9, 2024 in accordance with O. Reg. 431/20, *Administering Oath or Declaration Remotely*.



Commissioner for Taking Affidavits (or as may be)

ANDREW WINTON

WAYGAR CAPITAL INC., as agent for NINEPOINT
CANADIAN SENIOR DEBT MASTER FUND L.P.
Applicant

-and- QUALITY RUGS OF CANADA LIMITED et al.
Respondents

Court File No. CV-23-0703933-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDING COMMENCED AT TORONTO

AFFIDAVIT OF HUGH ROWAN-LEGG

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Suite 2750, 145 King Street West
Toronto ON M5H 1J8

Matthew P. Gottlieb LSO#: 32268B
mgottlieb@lolg.ca
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Andrew Winton LSO#: 54473I
awinton@lolg.ca
Tel: 416 644 5342

Lawyers for Alvarez & Marsal Canada Securities ULC

WAYGAR CAPITAL INC., as agent for NINEPOINT
CANADIAN SENIOR DEBT MASTER FUND L.P.
Applicant

-and- QUALITY RUGS OF CANADA LIMITED et al.
Respondents

Court File No. CV-23-0703933-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDING COMMENCED AT TORONTO

**MOTION RECORD
(returnable October 15, 2024)**

LAX O'SULLIVAN LISUS GOTTLIEB LLP
Suite 2750, 145 King Street West
Toronto ON M5H 1J8

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awinton@lolg.ca
Tel: 416 644 5342

Lawyers for Alvarez & Marsal Canada Securities ULC