

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)  
IN BANKRUPTCY AND INSOLVENCY**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF QUALITY RUGS OF CANADA  
LIMITED AND THE APPLICANTS LISTED IN SCHEDULE  
"A" (the "**Applicants**")

AFFIDAVIT OF JOHN A. PACIONE  
(affirmed Aug 3, 2023)

I, John Pacione, of the City of Vaughan, in the Province of Ontario, MAKE OATH AND SAY AS FOLLOWS:

1. I am a Co-Chief Executive Officer of Quality Rugs of Canada Limited (variously referred to herein as "QRCL and the "Company"), which with various affiliates does business as the Quality Sterling Group of Companies (variously referred to below as the "QSG Group" or the "Group" or the "Companies"). As such, I have knowledge of the matters to which I depose in this affidavit, save and except for such facts or matters which are stated to be based on information and belief, and where so stated, I believe same to be true. This affidavit is sworn in opposition to the applications of Waygar for CCAA protection in respect of the Group, and for a Receiver of the Group.
2. This affidavit is also sworn in support of an application by the Group seeking the following orders:
  - (a) abridging the time for, or dispensing with, service or further service of a Notice of Application;
  - (b) abridging the time for filing a Notice of Application;
  - (c) declaring that the Group are companies to which the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended ("CCAA") applies;

- (d) Authorizing the Group to complete a sale of all or substantially all of its business assets and property to Ironbridge Equity Partners Management Limited (variously herein the “Buyer” and the “Purchaser”), which Purchaser was selected through an exhaustive pre-filing SISP process conducted by a leading North American financial advisory firm;
- (e) staying all proceedings and remedies taken or that might be taken in respect of the Group and the entities listed in Schedule “A” herewith or affecting any of their business or property without leave of the Court;
- (f) permitting the Group to continue to use its cash management system including the cash presently in, or deposited in future to, its blocked accounts at the Toronto-Dominion Bank, and staying any exercise of dominion over those accounts by Waygar Capital Inc.(“Waygar”) and directing Waygar to take all steps necessary to permit the QSG Group to access the funds I those accounts
- (g) appointing RSM Canada Limited as Monitor of the Group;
- (h) approving the Interim Lending Facility and granting the Interim Lending Charge in favour of the proposed Purchaser as interim financier at the Comeback hearing;
- (i) granting the Administration Charge to secure the fees and disbursements of the Monitor, the Monitor’s counsel. the Group’s counsel and the monthly work fee of A&M;
- (j) granting a charge over the sales proceeds of the Sale to the Purchaser (the SISP Proceeds Charge) to secure the success fee provided for in the Group’s engagement letter with its financial advisor, Alvarez & Marsal Corporate Securities ULC (“A&M”), and if necessary an Order approving that engagement letter
- (k) granting a charge in favour of the Directors and Officers in respect of liabilities arising post filing;

- (l) authorizing the Group to file a plan of compromise or arrangement with its creditors or if applicable some of them;
  - (m) sealing the confidential appendices to the pre-filing report of the Monitor to be filed in connection with this application (the “**Pre-Filing Report**”);
  - (n) approving the activities of the Monitor as described in the Pre-Filing Report; and
  - (o) for certain other ancillary relief as set out in the Company’s Notice of Application
3. All capitalized terms in this section not defined herein have the meaning defined below in this affidavit.

## **OVERVIEW OF THE COMPANY AND OPERATIONS**

### The Company, the Group and its Management

4. The Company is a private company incorporated under the Ontario Business Corporations Act whose registered head office is located at 505 Cityview Boulevard, Unit #1, Vaughan, Ontario.
5. The Group consists of the Company and several affiliated entities. The principal operating subsidiaries and which own the assets of the QSG Group business are QRCL and the entities listed in Schedule A.1 to the Notice of Application (collectively including QRCL, the “QSG Opcos”), namely:
  - (a) Malvern Contract Interiors Limited (“Malvern”);
  - (b) Weston Hardwood Design Centre Inc (“Weston”);
  - (c) Ontario Flooring Ltd. (“Ontario FL”); and
  - (d) Timeline Floors Inc. (“Timeline”).
6. Certain holding companies of the QSG Opcos (variously herein the “QSG Holdcos” or “holdcos”) ) are Group entities which may have liability to the Group’s creditors under

guarantees or arrangements. They are listed in Schedule A.2 to the Notice of Application, as follows:

- (a) Quality Commercial Carpet Corporation;
- (b) Joseph Douglas Pacione Holdings Ltd.;
- (c) John Anthony Pacione Holdings Ltd.;
- (d) Jopac Enterprises Limited;
- (e) Patjo Holdings Inc.;

These holding companies simply own shares directly or indirectly in the QSG Opcos and have no operations or nor material assets of value. They are liable as guarantors of the Waygar loan to the QSG Opcos, which loan arrangements are described below.

7. The Group is family owned. Specifically, the Company and the Group are wholly owned by various members of the Pacione family directly and through holding companies as shown on the simplified group organization chart (“QSG Organization Chart”), which is attached herewith as Exhibit “A”. The Company is currently managed under the leadership of my brother JD and I as co-CEOs..

#### The Business and its Customers

8. The Company was founded 58 years ago in 1965 by the Group’s current Chair, my father Joseph R. Pacione. Through growth and the acquisition of other companies in the industry, the Group has grown to become the largest flooring contract business in Canada and holds, by far, the largest market share in the Ontario marketplace. Until its recent short term difficulties, the Group has been a generational success story.
9. The Group provides a comprehensive selection of flooring – tile, carpet and hardwood – to builders in the new single-family, multi-unit and high-rise residential markets (approximately 80%) in addition to general contractors serving commercial markets. The Group serves virtually all of the largest residential and commercial developers and builders in Canada.
10. In addition to housing the Group’s head office, the 65,000 square foot facility located in Vaughan includes a warehouse and showroom and provides coverage of the Ontario

market. In addition, the Group operates from a 16,681 square foot facility in Langley, British Columbia, a 8,107 square foot facility in Dartmouth, Nova Scotia, a 5,267 square foot facility in Calgary, Alberta and a 3,960 square foot facility in Ottawa, Ontario each serving their respective markets. All properties are leased from third parties.

### The Industry

11. Flooring is an essential part of finishing new residential and commercial developments and completing renovations. The residential market, which is by far the greatest source of Group revenues, will continue to be driven for the foreseeable future by the demand for housing as Canada's population continues to grow. In the past year, Canada's population reached 40 million after growing at the fastest rate since 1957 ([https://www.statcan.gc.ca/en/subjects-start/population\\_and\\_demography/40-million](https://www.statcan.gc.ca/en/subjects-start/population_and_demography/40-million) )

### Employees

12. The Company employs approximately 128 people – 114 in Ontario, with a further 14 employed at other locations across Canada.
13. The significant majority of the Group's installation work (virtually all of the Ontario residential business) is performed by an extensive network of third-party installers who work on an almost exclusive basis with the Group owing to its large volume of work. The independent contract installers are remunerated based on production (ie. piecework by job) and many are members of the Carpenters and Allied Workers of Local 27 - United Brotherhood Carpenters and Joiners of America ("**Local 27**") or Brick and Allied Craft Union of Canada ("**BACU**"), local 31. Hence their futures are also greatly impacted by the fate of the business.
14. The Company does not provide or administer any pension plans for its employees.
15. My brother, J.D. Pacione and I are Co-Chief Executive Officers of the Group. Generally, J.D. focuses his attention on business development and I focus on operations. We both have many years of experience with the Company ( 35 and 32 years respectively) and extensive connections and relationships with builders, suppliers, installers, and other key industry participants, as does our father. Relationships are critical in the industry which

remains tightly-knit and with many companies having multi-generational ownership and operating affinities.

16. The business also has a senior management team consisting of experienced professionals in operations and supply chain management, finance, data analytics and information technology. The CFO is a former investment banker with a wealth of invaluable skills and experience. As well, under the leadership of my brother J.D. Pacione, there are critical business development people in each of the operating entities able to leverage off years of experience in the industry (as noted, the Group is the largest flooring contractor in Canada).

Financial Snapshot as at May 31, 2023

17. A copy of the Group's internal balance sheet and income statement as at May 31, 2023, is attached hereto and marked as Exhibit "B". Those financial statements show the Group has total Assets of \$80.2 million, of which the current assets are \$67.5 million. The Current Assets are in turn composed principally of \$51 Million in receivables from builders (AR 39.5 million + Holdback AR + Accrued Revenue) and 9.4 million in Inventory WIP and Goods in-Transit.
18. The breakdown of the accounts receivables and inventory is as follows:

<b>\$000s</b>	Jun'23	May'23	
Gross A/R	43,326	43,484	*
Aged out A/R	( 9,437)	( 9,399)	
Intercompany	( 379)	( 2,382)	
other ineligible	( 947)	( 433)	
Eligible A/R	<u>32,562</u>	<u>31,269</u>	
Holdback	7,327	8,002	*
ineligibles	-	-	
Eligible holdback	<u>7,327</u>	<u>8,002</u>	
Total A/R	50,654	51,486	sum of *
Gross inventory	7,176	8,230	
ineligibles	( 1,137)	( 1,121)	
Eligible Inventory	<u>6,039</u>	<u>7,109</u>	

19. Owing to the restrictions on lending and access to cash imposed by Waygar since February 2023 discussed further below, there has been some deterioration in the asset base since May, 31, 2023, and the company's ability to purchase and pay installers was impaired by those restrictions.
20. The income statement to May 31, 2023, shows in the trailing 12 months to that date, the Group revenue was in excess of \$134 Million, the Group had a gross profit margin of 16.1%, the Group suffered a net loss of \$6.5 Million, and its EBITDA was \$1.4 million. The loss reflected the difficulties experienced in 2022, high levels of interest expense, and the financial restrictions imposed by Waygar in 2023. Losses have continued in June and July because Waygar has not been lending to the Company while at the same time it has frozen \$5 million of its working capital as discussed below. That forces the Group to operate inefficiently and lose opportunities.
21. The Group is a 55 year old business in a robust industry that has long been profitable and enjoys a dominant market position and a good business reputation. Management anticipates improved margins and a return to profitability once the business is recapitalized following the implementation of the proposed Sale Transaction, and can resume its normal profitable business pattern of the decades preceding the unusual 2020-2023 period.

#### Cash Management System

22. The QSG Group operates a consolidated receipts account and a consolidated disbursements account at the Toronto-Dominion Bank. Receipts from its builder customers go into the receipts account. Each week funds are released from that account to the disbursements account to fund the week's expenditures. Pursuant to its loan arrangements with Waygar discussed below the receipts account is a blocked account (the "Blocked Account") and funds cannot be transferred from there to the disbursements account or otherwise withdrawn or spent, unless Waygar consents to the release of the funds to the disbursement account.

#### **THE GROUP'S CREDITORS**

Waygar

23. The Company is currently indebted to Ninepoint Canadian Senior Debt Master Fund L.P., the agent for which is Waygar in the amount of approximately \$50,635,148 million as of August 1, 2023 in respect of a revolving working capital The loan agreement was entered into on October 19, 2019 and was amended 5 times between then and August 15 2022, and then was further modified by an agreement defined below as the CAAA on February 14, 2023. As security for this debt, Waygar holds (among other things) general security interests ranking in first position over all of the Group's assets granted under GSAs with various group entities. It also holds limited recourse pledges of the shares of the operating companies held by holding companies in the Group. It holds no personal guarantees.
24. Until the Summer of 2022, the revolving working capital loan had a stated limit of \$40 million, but that was increased to \$50 Million through the SOFA Loan (defined below), and was increased again in the February of 2023 to \$52.5 Million pursuant to a Loan Amending and Accommodation Agreement.
25. In addition to the upper limit on lending, the loan is governed by a borrowing base. As discussed below, the current amount outstanding on the revolving working capital loan is offside the borrowing base calculation. Subject to the exception noted below, the Group is unable to draw beyond the current \$51 million without Waygar's discretionary permission.
26. On or about July 29, 2022, Waygar agreed to advance the Group a Secured Over-advance Facility (the "**SOFA Loan**") of \$10 million to meet the Group's anticipated critical payment needs. A loan amending agreement was entered into to finalize and implement those terms and the \$10 million was drawn down. That advance was conditional on the Pacione family injecting a further \$1 million beyond the approximately \$9 million the family had already invested in the business. That injection was made in order to satisfy the SOFA terms and permit the Group to access the liquidity provided by the SOFA.
27. The Waygar debt is guaranteed by c the QSG Group entities listed on Schedules "A.1: and "A.2" to the Notice of Application. The Schedule A.1 entities are QSG Opcos which



have given full guarantees, and the Schedule A.2 entities are holding companies that for the most part have provided limited recourse guarantees with recourse only to a pledge of shares in one of the QSG Opcos.

28. The Waygar loan documentation is attached to the affidavit of Don Rogers in the Waygar application.

#### Mohawk

29. The Company is currently indebted to Mohawk Carpet Distribution, Inc. (“Mohawk”), one of the Group’s larger suppliers, in the amount of approximately \$2.7 million pursuant to a Loan Agreement dated November 21, 2016. As security for this debt, Mohawk holds a general security interest ranking behind Waygar over the Group’s assets. There is an inter-creditor agreement between Mohawk and Waygar that gives Mohawk priority over the inventory it has supplied, but there is only about an estimated \$200,000 worth of such inventory which the Group currently holds.
30. The Mohawk/Waygar Inter-creditor Agreement is attached to the affidavit of Don Rogers filed in the Waygar application.

#### Related Party Loans

31. The Group is indebted to its holdco shareholders in the amount of approximately 11.9 million. These related party balances are unsecured, non-interest bearing and have no fixed repayment obligations with the exception of:
  - (a) notes totalling \$6.2 million payable to JoJohn Holdings Limited, a corporation owned by the shareholders of the QSG Group, which pays interest only and have maturity dates of May 31, 2023.
  - (b) a note for \$1.0 million payable to Joseph R. Pacione which pays interest only and has a maturity date of May 31, 2023.

There are in theory offsetting intercompany balances owing by other QSG Group entities, so that the net intercompany balance is approximately \$4.5 million, but the offsetting balances are owed by entities with no assets of value..

### PPSA Registrations

32. A search of the Personal Property Security Registration System in Ontario (“PPRS”) shows that there are also registrations against the Group in respect of certain specific equipment and vehicles. A copy of the PPRS search results for QRCL is attached to the affidavit of Don Rogers in the parallel Waygar application.

### Litigation

33. The company is not engaged in any material litigation out of the normal course of operations.

### Employee Liabilities

34. The Company is current in respect of payment of employee wages and vacation pay and amounts required to be remitted to governmental authorities for source deductions or otherwise. The current amounts owing in respect of wages and source deductions is just the prorated amount since the last weekly payroll before the filing is approximately \$225,000. The accrued vacation pay is also an ordinary course amount of approximately \$250,000. The Company proposes to pay these amounts to bring them current forthwith after filing.

### Suppliers

35. Amounts owing to trade creditors total approximately \$21.3 million as of June 30, 2023. Approximately \$9.2 million of that is in arrears. These arrears largely resulted from cash flow stress which the Group experienced from 2020-2022 during the difficult period of the Covid pandemic and the construction industry strikes of 2022 discussed below,, which was compounded in 2023 by Waygar’s restriction of lending from February 2023 forward, and then by Waygar’s further restrictions since the end of June 2023 on the Group’s access to its cash collections in its bank accounts, all as discussed further below. Many of the Suppliers have had to be paid on a COD basis over the past several months in order to secure continuing supply, although they may have been crediting those payments to their earliest accounts receivable to reduce the older arrears. A high level summary of the Group’s outstanding Accounts Payable, as at June 30, 2023, sorted by the

largest exposures with the names redacted is attached hereto as **Exhibit “C”**. The Waygar application asserts that there are up to \$11 million in trust claims against collections to come from builders associated with those payables, but that analysis has not yet been conducted in a granular way and the actual amount is not known, but Group management believes it would be lower than that.

36. During the CCAA proceedings until completion of the sale, ongoing payments to Suppliers are proposed to be funded by cash flow from receivables collections, the DIP Loan, and access to the Group’s funds on deposit in its bank, all as explained further below.
37. The amounts owing to the Group’s largest 10 trade creditors (“**Critical Vendors**”) total approximately \$13.4 million. Under the Sale Agreement discussed below, the Purchaser will have the option to strike agreements with the Critical Vendors and other suppliers regarding their indebtedness owed by the Group and the Buyer may elect to assume some of that debt. It is anticipated that negotiations with Suppliers re same will take place once CCAA protection is granted and prior to the closing of the Sale Agreement.

#### Sales Taxes

38. The Company also has repayment obligations to the Government of Canada in respect of H.S.T. of approximately \$306,000 and a liability to pay intercompany HST of approximately \$120,000. These amounts represent current amounts which have accrued since late June, 2023, which has not been able to be paid as the Company’s access to its receivables collections was unilaterally curtailed by its lender starting June 29, 2023 as further detailed below. The Group proposes to pay these outstanding HST obligations to bring them current forthwith after filing. There are no other material sales tax arrears.

#### **Causes of the QSG Group’s Financial Difficulties**

##### *Covid 19 Pandemic Impacts 2020-2022*

39. The Covid-19 pandemic significantly impacted the construction industry, including the QSG Group. Without limiting the generality of the foregoing, the QSG Group has suffered financially as a result of the pandemic in the following respects:

- a. supply chain disruption in materials led to higher prices, longer lead times and challenges in meeting project timelines;
  - b. shortages of skilled labourers due to a slowdown in immigration into Canada. Further, Covid-19 government programs exacerbated the pre-Covid-19 labour shortage; and
  - c. strict health and safety requirements, lockdowns, use of personal protective equipment, distancing, daily employee screening and quarantining contributed to production challenges and short-term cost increases. The Omicron Covid-19 variant resulted in site shutdowns in 2022 resulting in construction delays.
40. Without limiting the above, as a “finishing trade”, ie the QSG Group’s independent contract installers are among the last to work on a property, delays that occur throughout the construction process have a compounding effect on installation schedules. The result was a reduction in revenues while carrying more inventory for longer periods as builders pushed the schedules for flooring installation even after the QSG Group had purchased the materials.
41. Global supply chain distribution issues, raw material price increases as well as increases in shipping and transportation costs resulted in significant increases in the costs of the QSG Group’s input materials. While the QSG Group has been successful in securing some price increases from their customers, there was an inevitable lag before the price increases could take effect impairing gross operating profit and liquidity. The QSG Group’s gross profit margins suffered in the short-term and liquidity was impacted.

***Ontario Residential Construction Strike 2022***

42. A further difficulty faced by the QSG Group in 2022 was the Ontario residential construction sector strike from May 1 to June 15, 2022. At various points during this 44 day strike trades such as the tilers, hardwood installers and carpet installers were on strike. In addition low rise framers, high rise form workers, self-leveling workers, drywallers, railings installers, and operating engineers were also on strike at points during this period.

43. Laborers' International Union of North America ("LiUNA") Local 183 (of which many of the QSG Group's installers were members at that time) wood and carpet installers were on strike for a full six weeks, and Local 183 tilers were on strike for several weeks as well. While the Local 31 high-rise tilers' union was not out on strike, this work was impacted by the stoppages of other trades which must be completed first.
44. The work which was delayed due to the construction strike was deferred causing a revenue lag impairing profitability and liquidity. The QSG Group was required to hold inventory for long periods of time in consequence. To compound matters, the builders that required imminent flooring installations, required, in many cases, different inventory than had been expected prior to the strike. The QSG Group hence was required to obtain and hold an increased amount of flooring colours, styles, and upgrade options, causing stress on liquidity.
45. The strike impacted the QSG Group's cash-flow dramatically. The QSG Group's working capital facility with Waygar is asset-based. Its availability is dependent on, to a large degree, the level of the QSG Group's accounts receivable. As the strike impacted the QSG Group's ability to supply flooring materials its accounts receivable balance dropped during that time causing further liquidity stress

#### **SOFA Advance and Recovery of the Business**

46. To assist the Group, in August 2022, Waygar authorized an interest only over-advance of \$10 million under its loan beyond the normal credit parameters of its loan (hereinafter the Secured Over Formula Advance or "SOFA Advance"). After getting through the challenges of Covid and the Strike, and with the benefit of the SOFA Advance, and improving pricing, the Company's accounts receivable and gross operating profit started to recover in Q4 2022. But to achieve a full recovery, either a further liquidity injection (via loan or equity), sale, or restructuring was required, so the QSG Group continued to be short of liquidity in consequence, preventing it from fully recovering and causing it to continue to miss out on contract and revenue growth opportunities. The SOFA amendment to the Waygar loan agreements is included in the Waygar loan documents

attached to the affidavit of Don Rogers filed in support of the parallel Waygar CCAA application.

47. As part of the SOFA arrangements, the Pacione Family injected another \$1 million into the business personally to help support the liquidity of the QSG Group, bringing their overall investment in the business to over \$10 million.

### **The CAAA, the Pre- Filing SISP and the Sale Agreement**

#### *The CAAA*

48. In recognition of the need for further liquidity from an external source, and in response to Waygar demanding its loan in January 2023, on February 14, 2023, Waygar and the QSG Group entered into a credit accommodation and amending agreement (“CAAA”) that provided that Waygar would forbear from enforcement and the QSG Group would conduct an out of court sales and investment solicitation process (“SISP”) to seek additional financing by loan or equity injection, a sale transaction, or a restructuring transaction, which could either be implemented out of court or through a court restructuring process. Further thereto, Waygar committed to advance an additional \$2.5 million to fund the SISP process and to allow the company to utilize 100% of its receivables collections to fund its operations notwithstanding any credit restrictions to the contrary in its loan agreements. A copy of the CAAA is attached the Don Rogers affidavit in the Waygar application.
49. The Group had requested that Waygar advance \$5 million under the CAAA to fund the SISP period, and management informed Waygar that failing to do so would start to cause the Group’s operations and receivables to erode and its payables to climb. However Waygar was only able to agree to \$2.5 million as the SISP advance under the CAAA, and asked the Group to continue to operate with compromised liquidity during the SISP process. Saddled with that constraint, management of the Group has done the best it could to keep the Group operating in the interests of all stakeholders, while an investor was sourced through the SISP to inject liquidity into the Group via a financing sale or restructuring,

*Conduct of the Pre-Filing SISP by A&M Corporate Finance*

50. Further thereto, the SISP has been conducted by Alvarez & Marsal Corporate Finance, a division of A&M Canada Securities ULC (“A&M”), a highly respected North American financial advisory firm selected by Waygar for the QSG Group to use for this purpose, further to an engagement letter between the QSG Group and A&M which was approved by Waygar and attached to the CAAA as a schedule. The engagement entitles A&M to a success fee and commits the QSG Group to seek protection of the payment of that fee from the resulting transaction proceeds. A copy of the A&M engagement letter as signed by A&M, the QSG Group and approved by Waygar is attached to the CAAA which is attached to the Don Rogers affidavit filed in the Waygar application.
51. In short the SISP process was part of the CAAA deal and was intended to effect the restructuring of the business through a financing, sale, or restructuring transaction. This was to be accomplished out of court if possible and through the court if necessary. The SISP process that Waygar and the Group jointly established was not a fishing expedition where Waygar would test the waters for buyers and then do the process over again. Both Waygar and the Group understood that the SISP was intended to be a broad canvassing of the market to identify counter-parties willing and able to produce a viable solution to the Group’s liquidity issues. Any insolvency filing that would then take place would be to implement the deal, not to start a new or different process to look for a different sale, financing, or restructuring.
52. The SISP process is summarized by A&M in its report on the SISP process which is appended to the Monitor’s Pre Filing Report. Some key points are as follows:
  - (a) The SISP process commenced in March 2023;
  - (b) A data room was established;
  - (c) Around 300 parties were approached by A&M over the course of the SISP process fully canvassing the market options, including financiers, equity investors, financial buyers and strategic buyers;
  - (d) Multiple parties signed NDAs to access the due diligence room;

- (e) Indications of Interest (bids) were received;
- (f) The best transaction proposal was selected for further negotiation culminating in the Sale Agreement with the Buyer;
- (g) Waygar received periodic reports from A&M on the progress of the SISP.

53. At no time did Waygar ask for the process to be halted or altered, nor as far as I am aware did they ever suggest any counter-parties that should be contacted as potential bidders. The QSG Group, the potential bidders, the Purchaser, and A&M all proceeded and spent money in reliance on the process which Waygar requested and consented to. Waygar's attempt to resile from the process at the 11<sup>th</sup> hour by filing a CCAA application literally on the eve of the deal being signed with the Purchaser is not commercially reasonable, nor in good faith, and in the opinion of management has no prospect of producing a result as good as, let alone better than the deal on the table.

***The Sale Agreement***

54. The best offer which emerged through the SISP was determined by the Company with the assistance of A&M as financial advisor. The initial expression of interest of that proposed Purchaser was further negotiated by the QSG Group with the assistance of A&M and in consultation with Waygar. Those negotiations culminated on July, 25, 2023, when the QSG Group signed a letter of intent with the Purchaser (the "Sale Agreement") which contemplates the completion of the sale to the Purchaser within 6 weeks after an initial CCAA Order is obtained. The Purchaser is a reputable entity with the internal financial resources to fund the transaction without external borrowing. A redacted version of the Sale Agreement is annexed hereto and marked as Exhibit "D". The unredacted Sale Agreement will be a confidential appendix to the proposed Monitor's pre filing report.

55. Key aspects of the Sale Agreement and transaction are:

- (a) Purchased Assets: The business and assets of the QSG Group;



- (b) Price: (the amount is in the unredacted Sale Agreement) paid 30% in cash and the remaining 70% by a split of accounts receivables collections where the Group receives 80 cents of each dollar collected until the Purchase Price is paid;
- (c) Adjustment: The price is adjusted at Closing to the extent the business has deteriorated from its May 31 financial position, and in particular if AR and inventory levels have declined from the May 31 benchmark;
- (d) Closing: No later than 6 weeks after the CCAA Initial Order is granted;
- (e) DIP Financing: The Purchaser will extend up to \$3 million in DIP financing to permit the QSG Group to implement the Sale Agreement through a CCAA process, conditional on the Group also being permitted to use the cash in its blocked accounts;
- (f) Going Concern Deal: the Purchaser will recapitalize the business post closing and continue it as a going concern;
- (g) The Purchaser will negotiate terms with management as to their future participation in the business;
- (h) The Purchaser will assume most of the employees;
- (i) Contracts with developers would be assumed, and protected by continuing operations to fulfill the contracts and to ensure there is a continuing entity standing behind the warranties that QSG offers with installations;
- (j) No liabilities will be assumed, but the Purchaser has the option to assume some of the debts to suppliers to the extent needed to ensure the successful operation of the business going forward; and
- (k) The transaction is conditional on an approval and vesting order being issued.

56. At this point, the Sale Agreement is at the executed Letter of Intent stage. Ironbridge has completed business due diligence and waived issues re same and has moved on to legal due diligence which is proceeding to complete. In parallel with that, Ironbridge counsel is currently preparing the DIP Term Sheet contemplated by the LOI, with a view to getting the DIP loan and related definitive documentation approved at the Comeback Hearing (defined below). Once legal due diligence is completed, the sale part of the transaction will also move to definitive documentation, including an Asset Purchase Agreement and

ancillary documentation. The objective is to finalize the definitive sale documentation before the Comeback Hearing so that an Approval and Vesting Order can be sought at that hearing.

57. Ironbridge is not just a financial buyer, and they are no stranger to successfully completing a purchase through a CCAA process. Earlier this year they purchased the business and assets of Gesco Industries Inc and affiliates (“Gesco”) through a CCAA interim sale. Gesco is also active in the Canadian flooring industry, operating as a distributor of flooring and related products on a national scale.. Ironbridge formerly owned Gesco so they know the industry well. The chance that the Group will find another strategic buyer who knows the industry, with its own internal resources to fund the liquidity needs of the business, and happens to be in acquisition mode at this moment, is close to zero.
58. QSG Group Management is of the opinion that the market has been fully canvassed and this is the best offer available, and that conducting a further SISP process will not produce a superior offer. It saves a 55 year old business, gets the best price available from a sound buyer with financial capacity to supply the business with sufficient liquidity to operate profitably, protects jobs and builder customers, protects the retail customers of builders who are waiting to move into residences they have put down deposits to secure, avoids work interruptions for the Group’s installation subcontractors, and creates future work for suppliers and some prospect for these suppliers to negotiate terms re assumption of existing exposures.

#### **Liquidation Analysis by RSM**

59. As the pre-filing SISP process approved by Waygar contemplated that the transaction may need to be implemented as a sale or restructuring transaction through a formal insolvency process, the QSG Group engaged RSM Canada Limited as proposed CCAA Monitor, and requested that they prepare a liquidation analysis of the Company to serve as a baseline for comparison with the outcome of the SISP. A copy of their liquidation analysis is a confidential appendix the Pre-Filing Report of the proposed Monitor. In a

nutshell, the price in the Sale Agreement produced through the SISP is vastly superior to what is obtainable through liquidation.

**Waygar's Going Concern Liquidation Approach is not Feasible**

60. Waygar's proposed manner of proceeding proposes:
- (a) handing over management to an accounting firm with no evidence of any expertise in the construction business;
  - (b) collecting accounts receivables from builders while progressively winding down the business (their cash flow shows a progressively declining payroll over 12 weeks, and dramatically declining payments to installers. This is evident from a comparison set out in the proposed Monitor's Pre-Filing Report; and
  - (c) attempting to solicit buyers in a compressed timeframe for a business they are winding down.

In short Waygar wants to attempt an orderly wind down liquidation of the Group with little prospect of any benefit for other stakeholders

61. In the opinion of Group management, there is no conceivable orderly wind down liquidation approach that can match the Sale Agreement outcome, and attempting to go that route would likely produce extremely poor results. This is due to the nature of business operations and contracts in the construction industry. QSG Group's business is wholly dependent on the builders paying their accounts receivables and granting new contracts to QSG for further flooring installations. Three things are particularly essential to QSG's builder customers:
- (a) on-time installation of flooring by QSG Group so as not to disrupt the builders timeline to complete and sell units and thereby retire its project related financing, and

- (b) the right of recourse to QSG Group to honour warranties for deficiencies in flooring supplied, both to correct issues before the project is sold, and afterwards, as their Purchasers have a right of recourse against the builders for same.
- (c) trusted relationship with QSG Group management so that they know the supplier can perform as promised.

Waygar's proposed manner of proceeding in its application cannot meet any of the critical criteria of the builders.

62. If QSG Group fails to honour these expectations, builders have rights under building contracts to terminate QSG' contracts, engage new suppliers to provide the flooring installations, withhold receivables payments and claim set offs against the receivables for the cost of mitigation and damages. The RSM Liquidation Analysis is based on discussions with management about these issues and assumes that is what will happen. Builders have these strong rights because:

- (a) Builders typically have obligations both to the financiers who finance construction ( construction finance would be far less available without the ability of builders to protect the completion of their projects),
- (b) Purchasers who have often paid deposits and planned their lives around taking occupancy. (Thousands of Purchasers would be affected if builders could not take quick action to ensure the continuity of their projects, and indeed thousands of Purchasers would be affected if QSG Group could not complete its scheduled installations and stand behind its installations post completion); and
- (c) For those reasons, builders will be very proactive in exercising the full extent of these rights to the full extent permitted by law.

63. The builders rely on relationships with QSG management built over decades. They will have no confidence in the capacity of an accounting firm to try to take over management of the QSG Group, nor of their reliability to attempt to start fulfilling construction supply contracts, nor to select replacement suppliers to fulfill them if necessary. The builders

will set off and terminate through the CCAA process rather than permit that. Such an approach is commercially unrealistic and will produce extremely poor receivable collection results, and cause the rapid deterioration of the business leaving little to sell.

64. Waygar is an asset based lender not a construction lender and its application materials do not state that Waygar or its proposed monitor/receiver Fuller Landau Group Inc. (“Fuller”) have experience in trying to maximize value for a distressed business in the construction industry. Their affiant Don Rogers has 30 years of experience in commercial and asset based lending and there is no issue with his capabilities in that field, but his experience does not appear to be in construction related lending and no claim is made in the Waygar application to the contrary. Waygar’s CCAA Application is a de facto receivership to be run by Fuller, and Group management is strongly of the view that this approach is not going to work to maximize value for QSG stakeholders given the construction industry context, and that the Sale Agreement is the best possible outcome, even if a compressed further SISIP were coupled with the orderly wind down attempt which Waygar proposes to have Fuller undertake.
65. Waygar’s application materials do not address key issues and risks with respect to the realization plan it envisages:
- (a) No security opinion about whether Waygar has valid security;
  - (b) No liquidation analysis;
  - (c) No estimate of obtainable value through their AR collection plan;
  - (d) No estimate of obtainable value thru a compressed SISIP;
  - (e) No estimate of the risk facing the company if their plan does not work;
  - (f) No details of their proposed compressed SISIP; and
  - (g) No statement of re any construction industry experience of Fuller or Waygar or Don Rogers.

### **Waygar Restrictions on QSG Liquidity since May 2023**

66. As noted above, Waygar underfunded the SISIP process, thereby putting the QSG Group under further liquidity stress as it conducted the SISIP, leading to unavoidable operational

deterioration which naturally impacts going concern realizable value. In short Waygar's unwillingness or inability to fully fund QSG's operational requirements during the SISF process has worked against Waygar's own interests.

67. Then starting in May 2023, Waygar made things worse. Under the CAAA, Waygar promised to advance \$2.5 million more to QSG Group to fund the SISF process and to let QSG Group use all of its cash and collections as working capital. Despite these commitments by Waygar in the CAAA in connection with the SISF process, and despite the fact that the SISF process was still ongoing and a potential Purchaser had been selected for negotiations of a definitive transactions, Waygar has since May 2022 restricted the QSG Group's access to its working capital as follows:

- (a) At the beginning of May, Waygar failed to advance the final \$250,000 installment it had committed under the CAAA to advance to fund the SISF process, (it only advanced \$2.25 Million to May 12, 2023 instead of the \$2.5 Million it promised to advance);
- (b) On June 29, 2023, with no advance notice, Waygar arbitrarily began withholding 15% of all QSG Group account receivables collections held in the Blocked Account, despite Waygar's commitment under the CAAA to allow the QSG Group to use 100% of those receipts to fund operations during the ongoing SISF process. As a result, as of August 2, 2023, there is now over \$6 million in cash trapped in the Blocked Account that Waygar is preventing the QSG Group from using. If that liquidity had been permitted to be used as working capital in the business as promised, the business would be in better condition, suppliers would be owed less, the company would have higher revenues and accounts receivables, and the risk of a price adjustment on the closing of the Sale Agreement would be lower.

68. Waygar's actions have impaired the QSG Group's cash flow and liquidity which has caused the further rescheduling of flooring installations (the lifeblood of its business), the loss of some new contract opportunities, limited supplier purchases, cash flow stress, and

some business deterioration. Waygar has nevertheless continued to require the QSG Group to pay Waygar substantial interest on its loan throughout the SISP process even while it was restricting the QSG Group's access to its cash, including approximately \$475,000 it transferred to itself this week while released no money to the Group since July 28, 2023. Reducing QSG Group liquidity during the sale process is counterproductive for all stakeholders, as it risks depressing realizable value on a going concern sale through loss of contracts and opportunities, and the risk of builder set-offs.

69. The restriction on liquidity since Feb 14, 2023 can be seen in the pattern of lost contracts which QSG has experienced. The Group has lost 11 contracts: 1 in March, 1 in May, 2 in June. But then after the restriction on full access to the funds in the Blocked Account was imposed on June 29, 2023, the Group has lost 7 contracts. The overall volume of lost contracts is not that alarming as the Group has more than 100 contracts in various stages and some customers have indicated a willingness to return once the Group stabilizes. However, the accelerating trend is of serious concern. The trend suggests strongly that the Group needs to be stabilized by access to its cash in the blocked account and then to the proposed DIP financing, and that it needs to complete the proposed going concern sale transaction forthwith. Waygar's plan to curtail staff and installer payments as shown in its cash flow forecast in the Fuller Report, will exacerbate the loss of contracts quickly and would not be a viable approach to sell the business as a going concern.

### **The QSG Group's CCAA Application**

70. The QSG Group is filing this Application under the *Companies' Creditors Arrangement Act* (the "**Application**") to implement the going concern sale of the company to the successful bidder in the SISP process (the "Purchaser"), and the related interim (DIP) financing which will stabilize its interim operations, and to carry out a claims process and the distribution of the resulting proceeds via a plan or otherwise.
71. A comprehensive multi-month SISP process was undertaken at Waygar's request and in the manner it requested, and this is the best offer which emerged from that process.

72. At no time prior to tabling its competing CCAA application on July 24, 2023 did Waygar suggest that QSG Group pursue a different process. Given the comprehensive process which has already been conducted by the QSG Group and its financial advisor in accordance with the specific request of Waygar, there is no reason to think conducting a further process would produce a better result. To do so would risk losing the deal already on the table and would risk unnecessary further deterioration of the QSG Group's business, with consequent damage to its employees customers and suppliers.
73. To preserve the business and to produce the best result for all stakeholders, it is critical to proceed forthwith to implement the Sale Agreement and Interim (DIP) Financing through the CCAA process proposed herein.

### **Interim (DIP) Financing**

74. This Application also seeks approval of interim financing arrangements as follows:
- (a) Approval of \$3 million in DIP financing, which the Purchaser has committed to provide under the Sale Agreement, to finance the CCAA process through to closing of the Sale Agreement. The DIP is proposed to be secured against the assets of the QSG Group in priority to Waygar and to be repaid from the cash closing proceeds under the Sale Agreement. That will enable the Company to finance the restructuring through closing.
  - (b) Approval of the right to access and utilize the approximately \$6 million in cash trapped in its blocked accounts held by QSG Group at the Toronto-Dominion Bank. Access to those funds could reduce the need for recourse to the DIP Loan, and their availability would enable the QSG Group to fund the remaining steps in the CCAA process following the closing of the Sale Agreement (at which time the DIP facility would be repaid from the sale proceeds pursuant to the Sale Agreement, meaning the Group would then propose to access its cash in its Blocked Accounts to fund the remaining steps in the CCAA process as required.)

Approval of the DIP facility would be sought at the 'Comeback Hearing' following the making of the Initial Order ("Comeback Hearing"), once the definitive DIP Loan documentation has



been completed with the Purchaser, so the immediate need on the initial hearing is to free up the right to use the cash currently trapped in the Blocked Account.

75. The Sale Agreement with the Purchaser sets out the terms on which interim finance will be made available by the Purchaser during the restructuring and a DIP Agreement (the “**Interim Lending Agreement**”) is being finalized to permit the interim advances to be made as needed following the granting of CCAA protection.
76. The DIP terms in the Sale Agreement contemplate that the Company will be permitted by the court to use its cash receipts trapped in the Blocked Account.. To the extent that the trapped cash is made available for QSG Group to use to finance operations during the CCAA period, there may be less need for recourse to the DIP. As the DIP is repayable from the sales proceeds, there is no ultimate impact on Waygar from freeing up the funds in the Blocked Account and thereby reducing the need for recourse to the DIP; Waygar ends up in the same position as it is the first secured creditor.
77. The proposed Monitor will be filing a copy of the Interim Lending Agreement with the court once it is finalized. It is anticipated to be finalized in the period between the Initial Order and the Comeback Motion and approval of the Interim Lending Agreement would be sought on that motion. The Group would need access to the cash in the Blocked Account to fund in the interim.
78. The proposed interim (DIP) financing is necessary to enable the QSG Group to meet its immediate, short-term liquidity needs so as to continue to operate through this period to preserve its going concern value through to sale completion.
79. The DIP Term Sheet contemplates definitive documentation will be entered into and is subject to Court approval. I am advised by QSG Group counsel that this agreement will contain terms which are customary for a loan advanced as part of an insolvency proceeding, including the requirement for security ranking in priority to all existing charges, security interests and other encumbrances, other than the Administration Charge (the “Interim Lending Charge”).

80. The Company will have no reasonable prospect of making a viable plan or restructuring or selling its business if it does not obtain the contemplated financing.
81. I believe that Purchaser is the most logical DIP lender given that:
- (a) it is motivated to complete the transaction and hence unlike third party lenders is not focussed on the profit from the loan as the source of transactional return, which keeps the loan cost and availability more than competitive
  - (b) it has done extensive due diligence allowing it to gain confidence that the loan will be repaid, whereas third party lenders would need a material ramp up time to make a decision
  - (c) it is offering the finance at an interest rate comparable to or below what one would expect to be able to find in the marketplace.

### **Proposed Monitor**

82. RSM is proposed as the Monitor in the Application (variously herein the “**proposed Monitor**” or the “**Monitor**”). RSM is a global accounting and advisory brand with a national platform in Canada with deep experience in CCAA and other insolvency matters.

### **Cash Flows of the Applicants**

83. The Monitor has assisted the Group in preparing a consolidated cash flow forecast (the “**Cash Flow Forecast**”) which sets out projected cash flows of the Applicants for the period ending 13 weeks from the date of the Initial Order (the “**Cash Flow Period**”), a copy of which is **appended to the proposed Monitor’s Pre-Filing Report**.
84. As set out in the Cash Flow Forecast, the Group anticipates that the pending Sale Transaction will be closed within 6 weeks after filing , with its operations funded from its cash on hand, cash inflows backed by a \$3 Million DIP. The DIP Loan will then be repaid forthwith after closing from the Closing proceeds. The Group is expected to have greatly reduced cash outflows after closing, which would need to be funded from the funds in the Blocked Account. That would provide sufficient liquidity to operate through

the remaining 7 weeks of the Cash Flow Period, during which time the Company proposes to conduct the distribution of proceeds and wind down and completion of the CCAA proceeding. The Cash Flow Forecast does not include the Sales Proceeds, and it is not expected that remaining CCAA activities post sale closing would need recourse to those funds.

85. The QSG Group is expected to have sufficient liquidity to operate to the end of Cash Flow Period, provided it continues to have access to interim financing and/or the release of the funds in the blocked account. As the DIP facility is not anticipated to be approved until the Comeback Hearing, in order to have sufficient liquidity to operate through to the Comeback Hearing, the QSG Group needs to access the funds in the Blocked Account. Assuming the Comeback Hearing is in Week 3 of the Cash Flow Period, the Group would need the funds set out in the Cash Flow through to Week 3.
86. The QSG Group will have no reasonable prospect of completing the sale or restructuring its business if it does not obtain the contemplated financing and/or the release of the funds in the blocked account.

#### **Administration Charge and D&O Charge**

87. The QSG Group seeks an order granting a charge over its property securing the fees and disbursement of counsel to the Company, the Monitor and its counsel in the amount of \$750,000 (the “**Administration Charge**”). The professionals whose fees are to be secured by the Administration Charge have taken on, and will continue to take on, a critical role in this proceeding.
88. The QSG Group seeks an order granting an indemnity secured by a charge in the amount of \$600,000 (the “**D&O Charge**”) over its property in respect of any amounts in respect of unpaid wages source deductions vacation pay or HST for which any directors of officers of the QSG Companies may become liable.
89. The Company has worked with the Monitor to estimate the proposed quantum of the Administration Charge and the D&O Charge. The amount of the Administration Charge contemplates that professionals are paid on a current basis during this proceedings.

### **SISP Proceeds Charge re Financial Advisor Success Fee**

90. The QSG Group seeks an order granting a charge to secure the A&M success fee promised to it in its engagement letter approved by Waygar (the “SISP Proceeds Charge”), which charge shall be limited to the cash proceeds resulting from the transaction with the Purchaser and not to other assets of QSG Group. The success fee is only payable from the transaction proceeds if there is a successful closing of the sale transaction (or an alternative transaction if captured by the terms of the engagement letter). The Success Fee is based on a formula which is set out in A&M’s engagement letter.

### **Ranking of Charges**

91. The Charges sought to be created in the property assets and undertaking of the QSG Group are proposed to rank in priority in the following order:

- (a) Administration Charge;
- (b) DIP Charge;
- (c) SISP Proceeds Charge (Charge limited to the Cash Proceeds of the Sale);
- (d) D&O Charge.

### **Additional Applicants**

92. The companies listed in Schedule A.1 hereto, namely

- (a) Malvern Contract Interiors Limited (“Malvern”);
- (b) Weston Hardwood Design Centre Inc (“Weston”);
- (c) Ontario Flooring Ltd. (“Ontario FL”);
- (d) Timeline Floors Inc. (“Timeline”).

are part of the QSG group and along with the Applicant QRCL are the QSG operating companies (collectively the “QSG Opcos”) which operate QSG’s business and hold substantially all of the assets to be sold under the Sale Agreement. They are liable under the loan agreements with Waygar as guarantors, and have various other obligations to

their suppliers and third parties, and hence also applicants for CCAA protection in this application.

93. The companies and entities listed in Schedule “A.2” hereto, namely:

- (a) Quality Commercial Carpet Corporation;
- (b) Joseph Douglas Pacione Holdings Ltd.;
- (c) John Anthony Pacione Holdings Ltd.;
- (d) Jopac Enterprises Limited;
- (e) Patjo Holdings Inc.;

are the “QSG Holdcos” of various QSG Opcos as discussed above, and have guaranteed Waygar’s Loans to the QSG Opcos and pledged their shares in the QSG Opcos structure as security therefor. In order to facilitate the ongoing operation of the QSG Group during the CCAA Group, it is necessary for them to a stay of proceedings to be extended to them and their directors and officers.

### **Sealing Order**

94. The QSG Group is requesting an order sealing confidential appendices to the Pre-Filing Report containing sensitive financial information including about the pre filing sales and investment solicitation process conducted by the QSG Group. The Proposed Monitor does not believe that any stakeholder will be prejudiced if such information is sealed.

### **Waygar’s Stealth CCAA Application and Other Commercially Unreasonable Conduct**

95. Since mid-2022, Waygar has struggled to communicate with QSG Group about its liquidity needs in a commercially reasonable manner. Requests for additional liquidity in connection with the SOFA negotiations and the CAAA negotiations were met with long silences even when it was obvious what should be done to protect the business and Waygar's investment. The reasons for Waygar’s inability to respond to matters or make decisions in a timely fashion was not explained.

96. This conduct continued during the SISP period. Both management and A&M experienced a lack of timely responses to requests for input on the Buyer's bid, notwithstanding Waygar's role in the establishment of the SISP process. Waygar's inability to respond was not explained.
97. Even prior to the June 29 restrictions on cash access, Waygar caused delays in Waygar making the cash in the Blocked Account available to pay bills, despite the promise in the CAAA that the Group could use 100% of those funds in its operations.
98. Starting on June 29, 2023 Waygar imposed a unilateral restriction on the use of cash in the Group's receipts account at its bank, despite the terms of the CAAA. Waygar advised it would hold back 15% of the cash then in the account, and 15% of every future receipt that entered the blocked account thereafter. It now appears that what Waygar was doing was trying to make the Group operate for 5 weeks (July 29 to August 4) without sufficient cash while it caused the Group to build up a cash reserve to try to fund Waygar's misconceived CCAA/Receivership application, because Waygar does not seem to have the internal resources to act as its own DIP financier..
99. On July 4, 2023, Waygar contacted the Commercial List Office to request the August 4 date for its application. It described the application as contested but did not contact QSG counsel for input on dates or disclose that it was planning to bring a CCAA Application..
100. On July 5, the Commercial List Office wrote to Waygar counsel to tell them to notify QSG Group counsel of the date request. The instruction to do so was highlighted in yellow.. Waygar ignored this and continued to proceed to book the date without opposing counsel's knowledge, in what I am advised by counsel is an apparent violation of the Commercial List Practice Direction.

101. Fuller signed its consent to act as CCAA Monitor on July 18, 2023.
102. No disclosure was made to QSG Group or its counsel of the booking of the August 4 court date or the pending application until the application was served on July 24, the same day the QSG Group received the signed LOI from the Purchaser. Had Waygar been communicating and complying with the rules of procedure instead of planning a sneak attack for 4 weeks, it would have known that the LOI was coming. It makes no sense to have served its application when it did. Attached hereto and marked as Exhibit 'E' is a copy of an email chain between Waygar's counsel and the Commercial List office starting on July 4, 2023, together with an email from QSG Counsel to Waygar counsel asking for an explanation of how the proceeding was booked without advising opposing counsel, and the explanation provided.
103. Waygar then compounded the error by randomly serving the CCAA Application on 3 suppliers out of the many suppliers QSG has. Suppliers talk in the construction business and an lender experienced in that business would never have done that. That was a unnecessary risk to take with a going concern business.
104. Waygar served its application QSG counsel on July 24, 2023 with a threat that if it was opposed, it would be converted into a receivership application and sent the draft receivership Notice of Application to QSG Counsel together with the CCAA materials it served.
105. Once it served the Application, Waygar was immediately informed on July 25 2023 that the Sale Agreement had been signed further to the SISP and was asked to adjourn its Application to August 14, 2023, as the process would be disorderly if the parties attempted to deal with the sale and the competing CCAA applications in the limited time before the 4<sup>th</sup>. Waygar refused.

106. On July 28, 2023, QSG Group notified Waygar that it intended to bring its own application for CCAA protection and to seek implementation of the Sale Agreement further to the SISP. In response, Waygar threatened to hold the directors personally liable if they sought CCAA protection for the Group..
107. Then, starting on July 28, 2023, Waygar refused to transfer any funds from the blocked accounts to QSG Groups disbursement account at TD to allow QSG to pay its bills, , which has left the Group precariously short of available cash as the balance in its disbursement account gets utilized without being replenished, even though it has millions in the bank. No reason was given by Waygar for this step.
108. Waygar was asked again on August 1 and 2 to release the funds so the company could plan its operating payments. Waygar did not respond. The QSG Group disbursement account now has less than \$1,000,000 exclusive of outstanding cheques and little to nothing if outstanding cheques are taken into account. Approximately \$ 6.18 million is in the receipts account to which Waygar is improperly blocking access.
109. Notwithstanding starving the company of cash to force it to run down its remaining free cash resources, Waygar paid itself approximately \$475,000 in interest from the Company's blocked cash this week.
110. Waygar issued its threatened Receivership Application on August 2, 2023. It now has served a stealth CCAA Application on July 24, a confidential supplemental affidavit on July 31, 2023 responding to the Sale Agreement, and now issued a Receivership Application on August 2, 2023, all for a proceeding it scheduled unilaterally for August 4, 2023.
111. Waygar's conduct is commercially unreasonable and wholly inappropriate in the circumstances. Waygar appears to be more concerned with tactical advantage than with



the operational health of the business to be protected, or protecting the value of the business to be realized through a transaction, or protecting the transaction being finalized through the SISP it participated in establishing, or protecting other stakeholders, or in conducting an orderly proceeding. Its application should be stayed dismissed, or adjourned in consequence.

**AFFIRMED before me** at the City of Toronto,  
in the Province of Ontario, on August 3, 2023,  
in accordance with O. Reg. 431/20,  
Administering Oath or Declaration  
Remotely



DocuSigned by:

Saisha Mahil

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Commissioner for Taking Affidavits  
(or as may be)  
Saisha Mahil LSO #80083T

DocuSigned by:

John Pacione

D59AF63ECDD02EA

**JOHN PACIONE**



THIS IS **EXHIBIT “A”** REFERRED TO

IN THE AFFIDAVIT OF

JOHN A. PACIONE, AFFIRMED BEFORE ME in the City of Toronto via  
videoconference in accordance with O. Reg 431/20, Administering Oath or Declaration  
Remotely

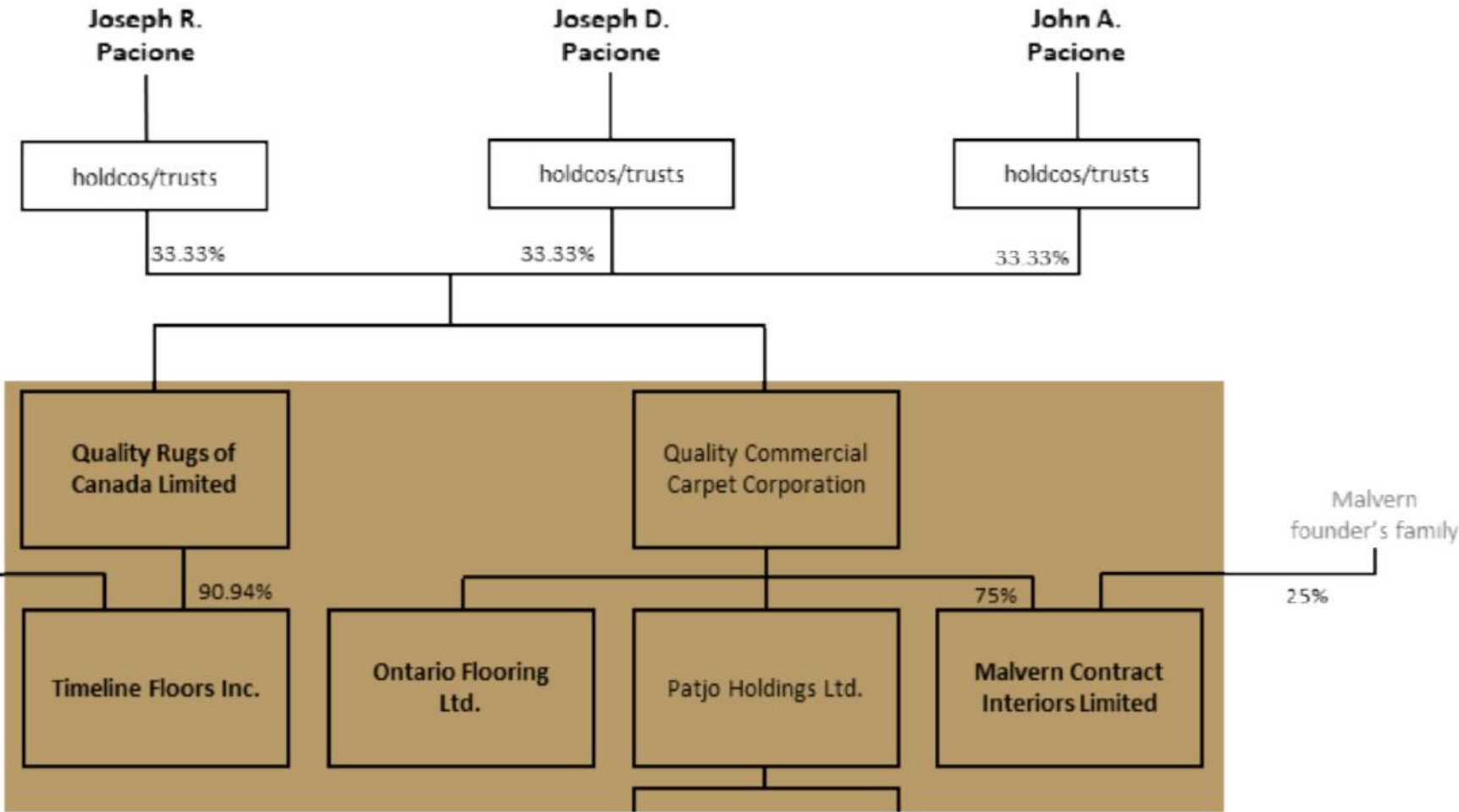
THIS 3<sup>rd</sup> DAY OF AUGUST, 2023

DocuSigned by:

*Saisha Mahil*

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A COMMISSIONER FOR TAKING AFFIDAVITS  
SAISHA MAHIL LSO #80083T



**THIS IS EXHIBIT “B” REFERRED TO**

**IN THE AFFIDAVIT OF**

**JOHN A. PACIONE, AFFIRMED BEFORE ME in the City of Toronto via  
videoconference in accordance with O. Reg 431/20, Administering Oath or Declaration  
Remotely**

**THIS 3<sup>rd</sup> DAY OF AUGUST, 2023**

DocuSigned by:

*Saisha Mahil*

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**A COMMISSIONER FOR TAKING AFFIDAVITS  
SAISHA MAHIL LSO #80083T**



Quality Sterling Group  
Unaudited Financial Statements as at  
May 31, 2023

Period 12

Trailing Twelve Month Income Statement	QRCL dba Quality Sterling Group	Malvern	WHDC	OFL	Timeline	Eliminating Entries	Combined Balance 05/31/2023
<b>May 31, 2023</b>							
Sales	86,614,980	25,553,789	52,095	-	21,945,614	-	134,062,288
CoGS	73,401,867	20,368,240	-	-	18,646,982	-	112,417,089
Inventory Adjustment	-	-	-	-	-	-	-
Gross Profit	13,213,113 15.3%	5,185,549 20.3%	52,095 100.0%	-	3,298,632 15.0%	-	21,645,199 16.1%
SG&A	12,923,877	4,030,583	28,472	16,158	3,703,177	-	20,702,267
Interest	5,637,801	13,340	11	-	270	-	5,651,422
Reorganization Costs	1,454,178	-	-	-	387,990	-	1,842,168
Tax Expense	-	-	-	-	-	-	-
<b>Net Income</b>	<b>(6,802,743)</b>	<b>1,141,626</b>	<b>(80,578)</b>	<b>(16,158)</b>	<b>(792,805)</b>	<b>-</b>	<b>(6,550,658)</b>
Interest	5,637,801	13,340	11	-	270	-	5,651,422
Depreciation	168,781	22,254	24,872	16,158	278,981	-	511,046
Reorganization Costs	1,454,178	-	-	-	387,990	-	1,842,168
Tax Expense	-	-	-	-	-	-	-
<b>EBITDA</b>	<b>458,017</b>	<b>1,177,220</b>	<b>55,695</b>	<b>0</b>	<b>(125,564)</b>	<b>-</b>	<b>1,453,978</b>
<b>12 Month(s) Ended 05/31/2023</b>							
Sales	86,614,980	25,553,789	52,095	-	21,945,614	-	134,062,288
CoGS	73,401,867	20,368,240	-	-	18,646,982	-	112,417,089
Inventory Adjustment	0	-	-	-	-	-	-
Gross Profit	13,213,113 15.3%	5,185,549 20.3%	52,095 100.0%	-	3,298,632 15.0%	-	21,645,199 16.1%
SG&A	12,923,877	4,030,583	28,472	16,158	3,703,177	-	20,702,267
Interest	5,637,801	13,340	11	-	270	-	5,651,422
Reorganization Costs	1,454,178	-	-	-	387,990	-	1,842,168
Tax Expense	-	-	-	-	-	-	-
<b>Net Income</b>	<b>(6,802,743)</b>	<b>1,141,626</b>	<b>(80,578)</b>	<b>(16,158)</b>	<b>(792,805)</b>	<b>-</b>	<b>(6,550,658)</b>
Interest	5,637,801	13,340	11	-	270	-	5,651,422
Depreciation	168,781	22,254	24,872	16,158	278,981	-	511,046
Reorganization Costs	1,454,178	-	-	-	387,990	-	1,842,168
Tax Expense	-	-	-	-	-	-	-
<b>EBITDA</b>	<b>458,017</b>	<b>1,177,220</b>	<b>55,695</b>	<b>0</b>	<b>(125,564)</b>	<b>-</b>	<b>1,453,978</b>

THIS IS **EXHIBIT “C”** REFERRED TO

IN THE AFFIDAVIT OF

JOHN A. PACIONE, AFFIRMED BEFORE ME in the City of Toronto via  
videoconference in accordance with O. Reg 431/20, Administering Oath or Declaration  
Remotely

THIS 3<sup>rd</sup> DAY OF AUGUST, 2023

DocuSigned by:

*Saisha Mahil*

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A COMMISSIONER FOR TAKING AFFIDAVITS  
SAISHA MAHIL LSO #80083T

**Quality Sterling Group**  
**Summary of Trade Creditors at June 30, 2023**  
**\$000s**






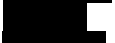
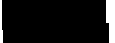
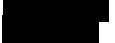


Accounts payable	\$ 14,359
Accrued trade expenses	6,944
	<u>21,303</u>

by supplier:		cumulative	% of total
1		2,614	2,614 12%
2		1,628	4,241 20%
3		1,457	5,698 27%
4		1,431	7,129 33%
5		1,412	8,541 40%
6		1,185	9,726 46%
7		1,071	10,797 51%
8		909	11,706 55%
9		864	12,570 59%
10		835	13,405 63%
11		622	14,027 66%
12		492	14,518 68%
13		409	14,927 70%
14		383	15,310 72%
15		360	15,670 74%
16		316	15,986 75%
17		287	16,273 76%
18		165	16,437 77%
19		148	16,585 78%
20		119	16,704 78%
21		117	16,821 79%
22		116	16,936 80%
23		115	17,051 80%
24		113	17,164 81%
25		77	17,241 81%
remainder		4,062	21,303 100%



**Quality Sterling Group**  
**Summary of Trade Creditors at June 30, 2023**  
**\$000s**

Accounts payable	\$ 14,359
Accrued trade expenses	6,944
	<u>21,303</u>

by supplier:		cumulative	% of total
1		2,614	12%
2		4,241	20%
3		5,698	27%
4		7,129	33%
5		8,541	40%
6		9,726	46%
7		10,797	51%
8		11,706	55%
9		12,570	59%
10		13,405	63%
remainder		21,303	100%

**THIS IS EXHIBIT “D” REFERRED TO**

**IN THE AFFIDAVIT OF**

**JOHN A. PACIONE, AFFIRMED BEFORE ME in the City of Toronto via  
videoconference in accordance with O. Reg 431/20, Administering Oath or Declaration  
Remotely**

**THIS 3<sup>rd</sup> DAY OF AUGUST, 2023**

DocuSigned by:

*Saisha Mahil*

6DDB6C80A890492...

**A COMMISSIONER FOR TAKING AFFIDAVITS  
SAISHA MAHIL LSO #80083T**



July 24, 2023

**PRIVATE & CONFIDENTIAL**

Hugh Rowan-Legg  
Alvarez & Marsal Corporate Finance  
200 Bay Street, Suite 2900  
Toronto, ON M5J 2J1

**Re: Proposal to Purchase Substantially All of the Assets of [Quality Rugs of Canada Limited, Quality Commercial Carpet Corporation, Timeline Floors Inc., Ontario Flooring Ltd., Patjo Holdings Ltd., Weston Hardwood Design Centre Inc. and Malvern Contract Interiors Limited]<sup>1</sup> (collectively the “Companies”, “Quality Sterling” or the “Vendors”)**

Thank you for providing Ironbridge Equity Partners Management Limited (“**Ironbridge**”) the opportunity to discuss with you the acquisition of the business carried on by Quality Sterling (the “**Business**”). We are pleased to submit this letter of intent (“**LOI**”) summarizing the terms and conditions pursuant to which the assets of the Companies would be acquired by an entity controlled by Ironbridge (the “**Purchaser**”). The assets of the Business will include, but not be limited to, all real and personal property, equipment, inventory, vehicles, accounts receivable, contracts, licences, intellectual property, and books and records other than certain excluded assets to be agreed (the “**Purchased Assets**”).

It is our intention to restructure and operate the Business as a going concern, retain the majority of the employees, serve customers and their communities from the key locations, and rebuild the foundation of this more than 55-year-old company that has been impaired by the global pandemic. This intent is consistent with our skills and experience as described below.

Ironbridge is a Canadian private equity firm whose strategy is to make investments in high-quality, mid-market, Canadian private companies. Our target industries include consumer and business products and services, manufacturing, and distribution. The operating backgrounds of the principals enable us to be high-value partners to management teams as they seek to reposition, improve, and grow their businesses. We have direct operating experience in the CEO, COO, and CFO roles and bring this practical experience to assist portfolio companies in their pursuit of profitable growth. In addition to our operating roles, we have over 27 years of combined experience as strategy consultants at leading consulting firms where we have worked in numerous industries, functional areas, and situations to drive performance.

Ironbridge has highly relevant experience working with distressed businesses in positions similar to that of the Vendors. Ironbridge recently acquired the assets of Gesco Industries, a supplier to Quality Sterling, and is continuing to operate that business as a national flooring distribution platform.

Ironbridge’s assets under management are over \$700 million and we are currently investing in new businesses through our \$383 million Ironbridge Equity Partners IV, LP (“**Fund IV**”), which is backed by institutional investors from Canada, the US and Europe. Ironbridge has successfully completed 29 platform and 23 tuck-in investments since 2005.

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<sup>1</sup> Note: Quality Sterling to advise which companies in the Quality Sterling group hold the operating assets of the business.

It is expressly understood that this LOI is not intended to, and does not, constitute a binding agreement to consummate the transactions described in this LOI, or enter into definitive documentation with respect thereto, and that except as explicitly set forth in this LOI, this LOI is not binding on any party. Consummation of the transactions described in this LOI will be subject to the satisfactory results of Ironbridge's due diligence investigations of the Purchased Assets, and the negotiation and execution of a definitive acquisition agreement (the "**Acquisition Agreement**") between the Purchaser and the Vendors and documentation in respect of the Interim Financing (as described below) between the Interim Lender (as defined below) and the Vendors, in each case, on terms that are mutually satisfactory to both parties. The parties intend for this LOI to serve as the framework for a going concern transaction. All amounts in this LOI are in Canadian dollars.

1. **Purchase and Sale.** Pursuant to the Acquisition Agreement, the Purchaser will purchase, and the Vendors will sell, the Purchased Assets free and clear of all liens and encumbrances (the "**Transaction**"). Ironbridge reserves the right to change the transaction structure after it has obtained advice from its tax and other professional advisors.
  2. **Purchase Price.** The purchase price for the Purchased Assets (the "**Purchase Price**") will consist of a \$[REDACTED] million cash payment (the "**Cash Purchase Price**") and the assumption of certain liabilities of the Vendors in connection with the Purchased Assets identified by the Purchaser.
- 2.1 The Purchase Price is based on the following assumptions:

(a)

(b)

(c)

(d)

- 2.2 The Cash Purchase Price, as adjusted in accordance with Section 2.3, will be payable as follows:

- (a) [REDACTED] million (the "**Closing Payment**") shall be payable on the Closing Date (as defined below). A portion of the Closing Payment shall be used to repay the Interim Financing; and
- (b) the balance of the Purchase Price shall be payable following the Closing Date based on a sharing of accounts receivable collections of the Purchaser, whereby \$[REDACTED] of each dollar of accounts receivable collections will be for the account of the Vendors (the "**Vendor Receivables Share**") and \$[REDACTED] of each dollar of accounts receivable collections will be for the account of the Purchaser, and which payments to the Vendors will commence once the Vendor Receivables Share of accounts receivable collections received following the Closing Date exceeds the Closing Payment.

2.3 The Cash Purchase Price will be adjusted as follows:

- (a) The Cash Purchase Price will be increased or decreased to reflect the difference between the Companies' inventory on the Closing Date ("**Closing Inventory**") and \$ [REDACTED] million. Closing Inventory of the Companies will be determined on a consolidated basis, prepared in accordance with GAAP and in a manner consistent with the Companies' financial policies and procedures used in preparation of its audited financial statements.
- (b) The Cash Purchase Price will be increased or decreased to reflect the difference between the Companies' accounts receivable on the Closing Date ("**Closing AR**") and \$ [REDACTED] million. Closing AR of the Companies will be determined on a consolidated basis, prepared in accordance with GAAP and in a manner consistent with the Companies' financial policies and procedures used in preparation of its audited financial statements.

3. **Acquisition Agreement.** Upon receipt of a copy of this LOI executed by the Vendors, Ironbridge will instruct its counsel to prepare the Acquisition Agreement to reflect the terms and conditions contained in this LOI and such other terms and conditions as are reasonable and appropriate for transactions of a similar nature to the Transaction, including the following:

- (a) the Purchased Assets will be sold on an "as is, where is" basis;
- (b) the Acquisition Agreement and any transition services agreement will be subject to court approval; and
- (c) the Acquisition Agreement will contain a mechanism for any adjustments arising from Section 2.3 to occur on or before 90 days after the Closing Date.

4. **Conditions Precedent to Closing.** The Acquisition Agreement will contain such conditions to closing as may be reasonably requested by Ironbridge and as are satisfactory to the Vendors. Without limiting the generality of the foregoing, the Acquisition Agreement will contain the following conditions to closing:

- (a) the Vendors have obtained a Sale Approval and Vesting Order which will, inter alia, vest the Purchased Assets in the Purchaser on the Closing Date, free and clear of any encumbrances against the Purchased Assets and the operation and effect of such order shall not have been stayed, amended, modified, reversed, waived, dismissed or appealed and no notices of the foregoing shall have been filed;
- (b) the Purchaser and the Vendors have obtained all necessary government or regulatory approvals to the completion of the Transaction, including any clearance required under the *Competition Act* (Canada);
- (c) the Vendors have received all third-party consents to the assignment of any material required licenses, permits or approvals and material contracts required to carry on the Business in the ordinary course; and/or, at the election of the Purchaser, the Vendors have obtained an assignment order in respect of such material contracts. Any cure costs associated with any contract that forms part of the Purchased Assets shall be for the account of the Vendors; and
- (d) the Purchaser shall have reached agreements with the senior employees of the Seller with respect to their employment by the Purchaser following closing, including with respect to each senior employee's role, remuneration and equity investment in the Purchaser.

5. **Closing Date.** The Transaction will close on the 10th calendar day after the date on which all of the conditions precedent to closing are satisfied (the “**Closing Date**”); provided that, notwithstanding such, the Acquisition Agreement will provide that there will be at least 10 business days between the signing of the Acquisition Agreement and the Closing Date to allow the Purchaser to make offers of employment to employees of the Vendors and arrange for the continuation of benefits and other employment matters. Ironbridge is committed to closing the transaction in an expeditious manner and does not anticipate any impediments to closing.<sup>2</sup>
6. **Employees.** The Purchaser will offer employment to certain employees of the Vendors (“**Retained Employees**”) determined by the Purchaser following completion of due diligence. Such offers will be on such terms as may be determined by the Purchaser, in its sole discretion, and will provide that the Purchaser will only recognize the Retained Employee’s past service with the Vendors for purposes of any minimum standards imposed by applicable employment standards legislation. The Purchaser will only be liable for the wages, bonuses and vacation pay of the Retained Employees and other employment related liabilities in respect of the Retained Employees from and after the Closing Date. The Vendors will be and will remain liable for unpaid or accrued wages, unpaid or accrued bonus and unpaid or accrued vacation of the Retained Employees prior to the Closing Date and any other pre-closing employment related liabilities in respect of the Retained Employees.
7. **Interim Financing.** In connection with the Transaction, Fund IV or the Purchaser (in such capacity, the “**Interim Lender**”) will provide interim financing (the “**Interim Financing**”) to the Vendors in the proposed CCAA proceedings. The Interim Financing is conditional on the Vendors obtaining an initial order under the CCAA (“**Initial Order**”) substantially in the form of the CLUC Model Order and which also provides that all funds currently being held by the **[lenders]** in the Vendors’ blocked account are released and available for use by the Vendors in accordance with the cash flow projections. The Interim Financing will be a non-revolving loan up to the maximum amount of \$3.0 million at an interest rate of 12% with a maturity date that is six weeks following the commencement of the Vendors’ CCAA proceedings. The term of the Interim Financing may be extended for a further two weeks at the sole discretion of the Interim Lender. The Interim Financing is repayable at the earlier of the closing of the Transaction or on the maturity date of the Interim Financing. The Interim Financing will be secured by a court ordered first ranking charge contained in the Initial Order on all present and after-acquired personal and real property of the Vendors without the need for any further loan or security documentation or any filings or registrations in any public register or system. The Interim Financing shall rank behind a court ordered administration charge of not more than \$750,000 and a court ordered director and officer charge of not more than \$600,000 but in priority to any other court ordered charges. The Interim Financing shall be used in strict accordance with mutually agreed to cash flow projections, subject to reasonable weekly variances due to variations in the timing of projected receipts and disbursements. Any variation from the cash flow projections beyond that will require the Interim Lender’s written consent. The Vendors shall pay all reasonable and documented costs and expenses of the Interim Lender in connection with the implementation and administration of the Interim Financing as well as an exit fee of \$100,000 and if an extension is required, an extension fee of \$15,000, on the maturity date of the Interim Financing or the closing of the Transaction. The Purchase Price payable to the Vendors in connection with the Transaction shall be applied first to pay in full any amounts outstanding under or in connection with the Interim Financing. At Ironbridge’s election, secured guarantees may be required from non-Vendors. The Interim Lender and the Vendors will enter into a binding interim financing facility term sheet with cash flow projections appended.

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<sup>2</sup> Note: To discuss aligning closing with a month end or the end of a pay period.

8. **Due Diligence by Ironbridge.** Upon accepting this LOI, the Vendors will give Ironbridge and its employees, auditors, legal counsel and other authorized representatives and the proposed CCAA monitor, all reasonable opportunity and access during normal business hours to inspect, investigate and audit the assets, liabilities, contracts, books, records, operations, and business relating to the Purchased Assets. Ironbridge will require:
- (a) access to all relevant information reasonably requested by its financial and legal advisors;
  - (b) access to the data room established by the Vendors, which will include copies of all contracts, agreements, leases, licences and permits relating to the Purchased Assets; and
  - (c) meetings with the Vendors' major customers and suppliers, provided that such meetings will be arranged at the request of Ironbridge with not less than 24 hours' notice.
9. **No Assignment.** This LOI may not be assigned by any party without the prior written consent of the other parties.
10. **Governing Law.** This LOI shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.
11. **Confidentiality.** The contents of this LOI will be kept confidential by all parties and are intended for the exclusive use of the parties and their professional advisors. Each party may disclose this LOI to its professional advisors. Additionally, the Vendors may disclose this LOI to its lenders and their professional advisors and to its proposed CCAA monitor, who, in each case, will also agree to keep it confidential. Except as required to conduct the necessary due diligence, as may be required by law or as provided in this LOI, disclosure of this LOI's existence or contents to any other person may only be made upon the prior written consent of Ironbridge and the Vendors.
12. **Exclusivity.**

From the date of this letter until the earlier of (i) October 15, 2023; and (ii) the mutual agreement of Ironbridge and the Vendors not to pursue the Transaction, the Vendors, the proposed CCAA monitor of the Vendors and any shareholders and agents of the Vendor shall not, directly or indirectly through any of their respective directors, officers, employees, associates, affiliates, agents or other representatives ("**Representatives**"):

- (a) solicit, assist, initiate, knowingly encourage or knowingly facilitate (including by way of discussion, negotiation, furnishing information, permitting any visit to any facilities or properties of the Vendors, or entering into any form of agreement, arrangement or understanding) any inquiries, proposals or offers regarding the acquisition of the Vendors or all or any part of their business or assets (other than products and immaterial assets disposed of in the Vendors' ordinary course of business), an investment of any nature in the Vendors or any other transaction that would be inconsistent or incompatible with the Transaction (an "**Alternative Transaction**");
- (b) engage or participate in any discussions or negotiations regarding, or provide any confidential information with respect to or otherwise cooperate with any person regarding any Alternative Transaction; or

- (c) accept or enter into, or propose to accept or enter into, any letter of intent, agreement in principle, agreement, arrangement or undertaking related to any Alternative Transaction.

The Vendors, the proposed monitor to the Vendors, any shareholders and agents of the Vendor and their Representatives shall immediately cease and cause to be terminated any existing solicitation, discussion or negotiation with any person (other than Ironbridge) with respect to any Alternative Transaction.

13. **Fees and Expenses.** Other than as set out in Section 7 in respect of the Interim Financing, the parties agree to bear their own costs and expenses with respect to the negotiation, preparation and execution of this LOI, the Acquisition Agreement and all other documents entered into or delivered in connection therewith, and no party shall have any liability to the other for any such expenses.
14. **Acceptance.** This LOI shall have no effect unless the Purchaser receives a copy of this LOI executed by the Vendors on or before July 25, 2023, at 7:00 pm Eastern Time. Upon acceptance of this LOI by the Vendors, Sections 9, 10, 11, 12, 13 and 14 of this LOI are intended to, and shall, constitute a legally binding and enforceable contract between and among the parties. In all other respects, this LOI, whether or not accepted by the parties, is not intended to, and shall not, create or reflect any binding contract or other form of legal relation between the parties.
15. **Contact Party.** Please contact the following with any questions regarding this proposal:

Alan Sellery  
President & Managing Partner  
Ironbridge Equity Partners Management  
Limited  
Bay Adelaide Center – East Tower  
22 Adelaide Street West, Suite 3520  
Toronto, Ontario M5H 4E3  
Direct: (416) 863-0101  
Email: [asellery@ironbridgeequity.com](mailto:asellery@ironbridgeequity.com)

Peter Dowse  
Managing Partner  
Ironbridge Equity Partners Management  
Limited  
Bay Adelaide Centre – East Tower  
22 Adelaide St. West, Suite 3520  
Toronto, Ontario M5H 4E3  
Direct: (416) 863-0106  
Email: [pdowse@ironbridgeequity.com](mailto:pdowse@ironbridgeequity.com)

(The remainder of this page is intentionally left blank; signature page follows.)



If the foregoing is in accordance with your understanding of this transaction, please have the Vendors sign and return one copy of this LOI to us. We look forward to working together to complete a mutually satisfactory agreement.

**IRONBRIDGE EQUITY PARTNERS  
MANAGEMENT LIMITED**

by   
Name: Alan Sellery  
Title: President & Managing Partner

The foregoing terms and conditions are accepted this 25 day of July, 2023.

**QUALITY RUGS OF CANADA LIMITED**

by \_\_\_\_\_  
Name:  
Title:

**QUALITY COMMERCIAL CARPET  
CORPORATION**

by \_\_\_\_\_  
Name:  
Title:

**PATJO HOLDINGS LTD.**

by \_\_\_\_\_  
Name:  
Title:

**TIMELINE FLOORS INC.**

by \_\_\_\_\_  
Name:  
Title:

**WESTON HARDWOOD DESIGN  
CENTRE INC.**

by \_\_\_\_\_  
Name:  
Title:

**MALVERN CONTRACT INTERIORS  
LIMITED**

by \_\_\_\_\_  
Name:  
Title:

**ONTARIO FLOORING LTD.**

by \_\_\_\_\_  
Name:  
Title:

If the foregoing is in accordance with your understanding of this transaction, please have the Vendors sign and return one copy of this LOI to us. We look forward to working together to complete a mutually satisfactory agreement.

**IRONBRIDGE EQUITY PARTNERS  
MANAGEMENT LIMITED**

by   
Name: Alan Sellery  
Title: President & Managing Partner

The foregoing terms and conditions are accepted this 25 day of July, 2023.


**QUALITY RUGS OF CANADA LIMITED**

by   
Name: J.D. Boerue  
Title: Co-CEO


**QUALITY COMMERCIAL CARPET  
CORPORATION**

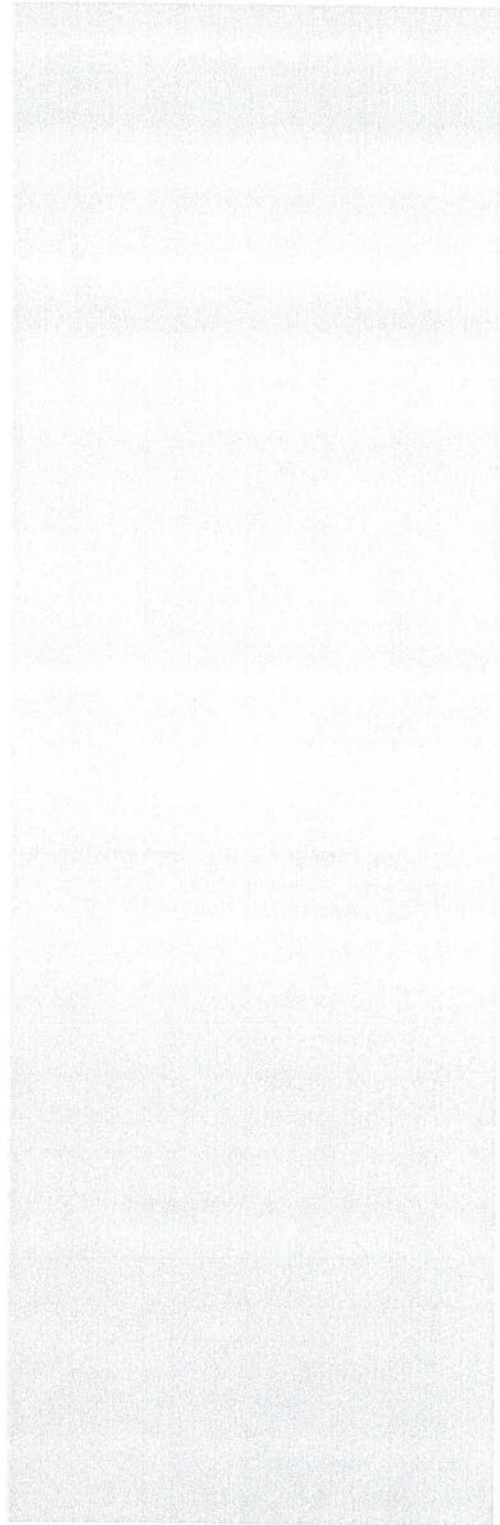
by   
Name: J.D. Boerue  
Title: Co-CEO

**PATJO HOLDINGS LTD.**

by   
Name: J.D. Boerue  
Title: Co-CEO

**TIMELINE FLOORS INC.**

by   
Name: J.D. Boerue  
Title: Co-CEO



WESTON HARDWOOD DESIGN  
CENTRE INC.

by \_\_\_\_\_


Name:  
Title:

  
J.D. Boies  
Co-CEO

MALVERN CONTRACT INTERIORS  
LIMITED

by \_\_\_\_\_


Name:  
Title:

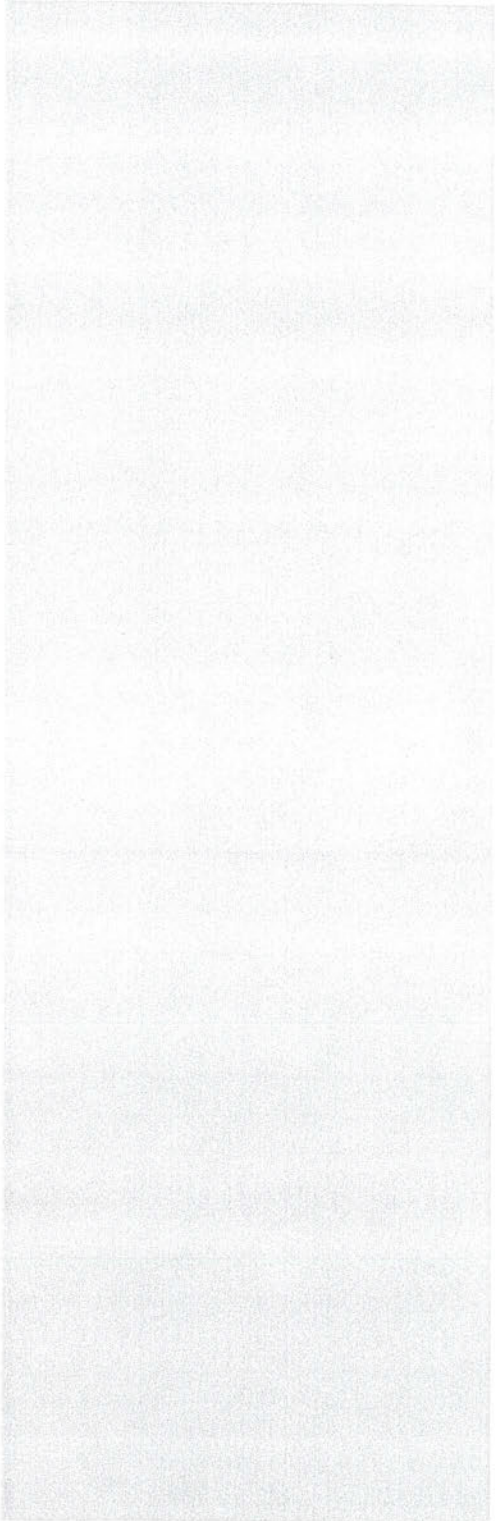
  
J.D. Boies  
Co-CEO

ONTARIO FLOORING LTD.

by \_\_\_\_\_

Name:  
Title:

  
J.D. Boies  
Co-CEO




If the foregoing is in accordance with your understanding of this transaction, please have the Vendors sign and return one copy of this LOI to us. We look forward to working together to complete a mutually satisfactory agreement.

**IRONBRIDGE EQUITY PARTNERS  
MANAGEMENT LIMITED**


by   
Name: Alan Sellery  
Title: President & Managing Partner

The foregoing terms and conditions are accepted this 25 day of July, 2023.


**QUALITY RUGS OF CANADA LIMITED**

by   
Name: J.D. Pacione  
Title: Co-CEO

**QUALITY COMMERCIAL CARPET  
CORPORATION**

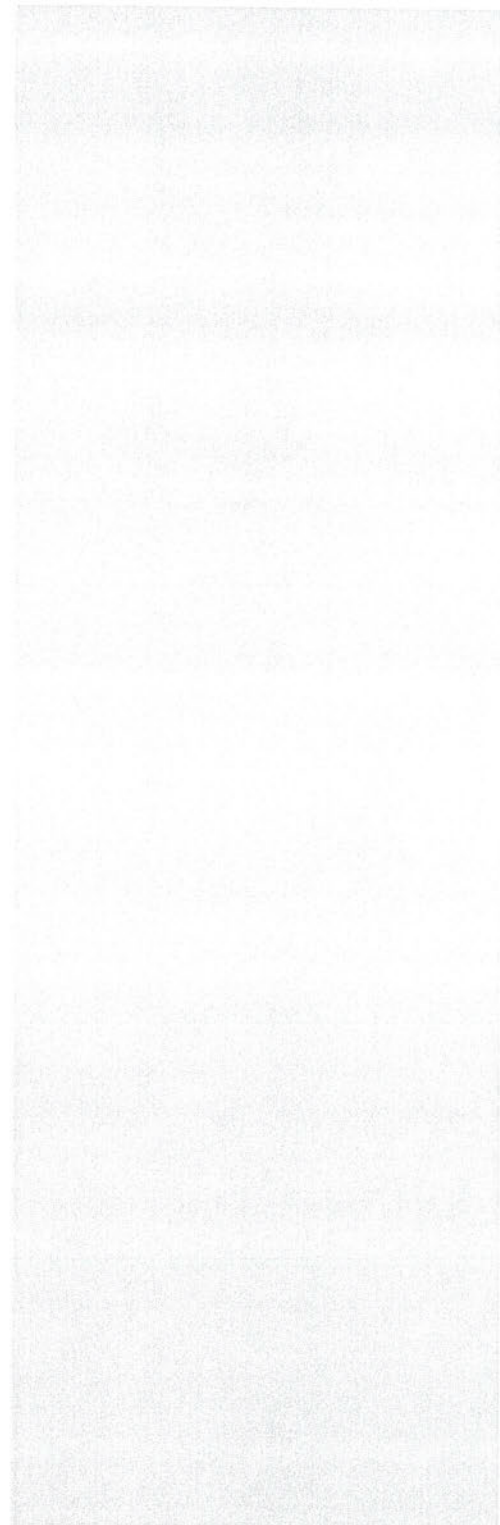
by   
Name: J.D. Pacione  
Title: Co-CEO

**PATJO HOLDINGS LTD.**

by   
Name: J.D. Pacione  
Title: Co-CEO

**TIMELINE FLOORS INC.**

by   
Name: J.D. Pacione  
Title: Co-CEO



WESTON HARDWOOD DESIGN  
CENTRE INC.

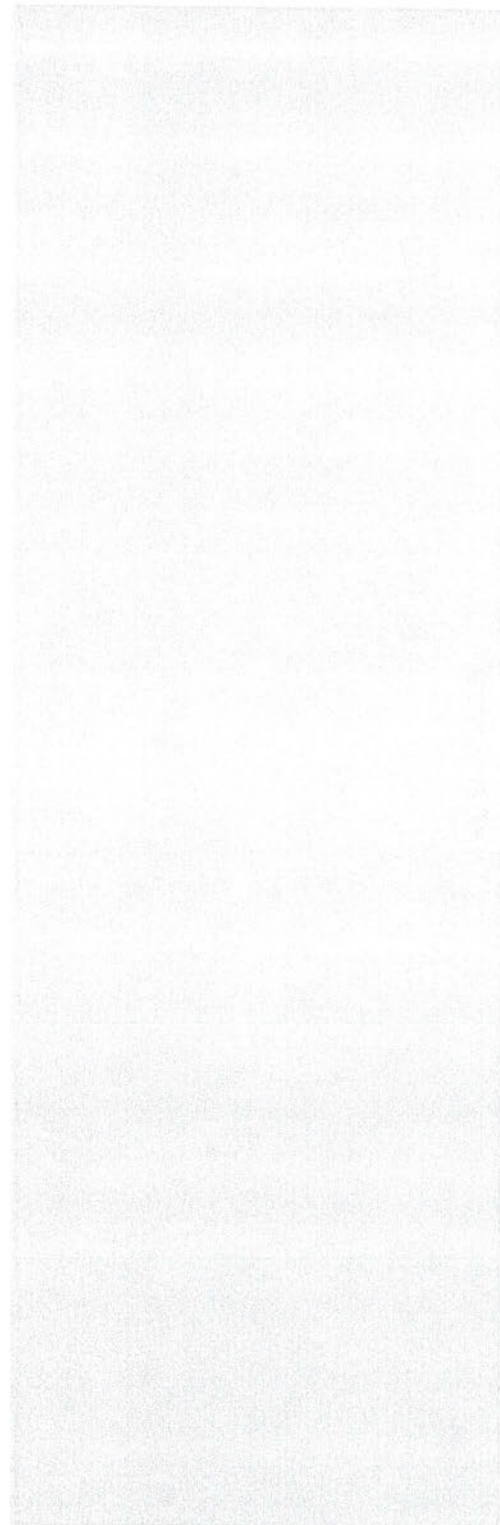
by   
Name: J.O. Loewie  
Title: Co-CEO

MALVERN CONTRACT INTERIORS  
LIMITED

by   
Name: J.O. Loewie  
Title: Co-CEO

ONTARIO FLOORING LTD.

by   
Name: J.O. Loewie  
Title: Co-CEO



**THIS IS EXHIBIT “E” REFERRED TO**

**IN THE AFFIDAVIT OF**

**JOHN A. PACIONE, AFFIRMED BEFORE ME in the City of Toronto via  
videoconference in accordance with O. Reg 431/20, Administering Oath or Declaration  
Remotely**

**THIS 3<sup>rd</sup> DAY OF AUGUST, 2023**

DocuSigned by:

*Saisha Mahil*

6DDB6C80A890492...

**A COMMISSIONER FOR TAKING AFFIDAVITS  
SAISHA MAHIL LSO #80083T**

## Bordman, Eli

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**From:** Matilda Lici <mlici@airdberlis.com>  
**Sent:** Monday, July 31, 2023 5:22 PM  
**To:** Besant, Chris; Steven L. Graff  
**Subject:** RE: Quality Sterling Group CCAA Application Aug 4 - Notice

Hi Chris,

Given the difficulties and delays associated with securing court time during the summer months, priority was given to locking down the earliest available hearing date. From then, we were waiting to receive news or updates from your clients' end, which only arrived after we had served our materials. It also took us time to prepare and assemble materials, for both a receivership path and a CCAA path, as we weren't entirely sure which route we'd be taking until most recently.

In any event, the materials were served with more than 10 days' notice, as required by the *Rules*, and none of the relief sought should be surprising to your clients, given the discussions between the parties over the last seven months.

Thanks,

**Matilda Lici**

T 416.865.3428  
E mlici@airdberlis.com

**Aird & Berlis LLP**

This email is intended only for the individual or entity named in the message. Please let us know if you have received this email in error. If you did receive this email in error, the information in this email may be confidential and must not be disclosed to anyone.

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**From:** Besant, Chris <cbesant@grllp.com>  
**Sent:** Monday, July 31, 2023 4:21 PM  
**To:** Steven L. Graff <sgraff@airdberlis.com>  
**Cc:** Matilda Lici <mlici@airdberlis.com>  
**Subject:** RE: Quality Sterling Group CCAA Application Aug 4 - Notice

You said "We will have an answer and explain"

Please let me have your answer and explanation by the end of the day today.

**Chris Besant** • Partner

Gardiner Roberts LLP

Bay Adelaide Centre - East Tower, 22 Adelaide St W, Ste. 3600, Toronto, ON M5H 4E3

T 416.865.4022 | F 416.865.6636 | E [cbesant@grllp.com](mailto:cbesant@grllp.com) | [www.grllp.com/p/christopherbesant](http://www.grllp.com/p/christopherbesant)

---

**From:** Steven L. Graff [<mailto:sgraff@airdberlis.com>]  
**Sent:** Monday, July 31, 2023 4:20 PM  
**To:** Besant, Chris  
**Cc:** Matilda Lici  
**Subject:** RE: Quality Sterling Group CCAA Application Aug 4 - Notice

Sorry; answer to what?



**Steven L. Graff**

T 416.865.7726  
E [sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)

**Aird & Berlis LLP**

This email is intended only for the individual or entity named in the message. Please let us know if you have received this email in error. If you did receive this email in error, the information in this email may be confidential and must not be disclosed to anyone.

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**From:** Besant, Chris <[cbesant@grllp.com](mailto:cbesant@grllp.com)>  
**Sent:** Monday, July 31, 2023 4:18 PM  
**To:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>; Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Subject:** RE: Quality Sterling Group CCAA Application Aug 4 - Notice

Please let me know your answer by the end of the day as it may affect the materials to be filed and other steps to be taken.

**Chris Besant** • Partner

Gardiner Roberts LLP  
Bay Adelaide Centre - East Tower, 22 Adelaide St W, Ste. 3600, Toronto, ON M5H 4E3  
T 416.865.4022 | F 416.865.6636 | E [cbesant@grllp.com](mailto:cbesant@grllp.com) | [www.grllp.com/p/christopherbesant](http://www.grllp.com/p/christopherbesant)

---

**From:** Steven L. Graff [<mailto:sgraff@airdberlis.com>]  
**Sent:** Monday, July 31, 2023 4:15 PM  
**To:** Besant, Chris; Matilda Lici  
**Subject:** RE: Quality Sterling Group CCAA Application Aug 4 - Notice

Not going to let you paint us that way Chris. We will have an answer and explain; but, to be clear, we aren't the bad guy here!

**Steven L. Graff**

T 416.865.7726  
E [sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)

**Aird & Berlis LLP**

This email is intended only for the individual or entity named in the message. Please let us know if you have received this email in error. If you did receive this email in error, the information in this email may be confidential and must not be disclosed to anyone.

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**From:** Besant, Chris <[cbesant@grllp.com](mailto:cbesant@grllp.com)>  
**Sent:** Monday, July 31, 2023 4:12 PM  
**To:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>; Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Subject:** RE: Quality Sterling Group CCAA Application Aug 4 - Notice

Steve

Thanks for your note

If your client is concerned about timing, we had proposed that the parties adjourn the hearing to August 14. We proposed that out of concern that the process would be disorderly. Your client declined that suggestion on July 28.

As you know, August 4 was booked by your client for its CCAA Application without consulting me as opposing counsel concerning the date, even though your client was aware the application would be opposed and that I was counsel, which is contrary to the Commercial List Practice Direction.

It further appears from the attached which was circulated on July 28<sup>th</sup> to us for the first time, that your client has been in communication with the commercial list about scheduling this date since July 4, a full 20 days before your application was served, and that requests from the Commercial List during the scheduling process as far back as July 5, 2023, to notify opposing counsel of the proposal to book the date were ignored. The request on July 5 from the court was highlighted in yellow.

We will do our best to get our materials to you in the time available.

All rights are reserved which flow from the sequence of events noted above.

Regards  
Chris

**Chris Besant** • Partner  
Gardiner Roberts LLP  
Bay Adelaide Centre - East Tower, 22 Adelaide St W, Ste. 3600, Toronto, ON M5H 4E3  
T 416.865.4022 | F 416.865.6636 | E [cbesant@grllp.com](mailto:cbesant@grllp.com) | [www.grllp.com/p/christopherbesant](http://www.grllp.com/p/christopherbesant)

---

**From:** Steven L. Graff [<mailto:sgraff@airdberlis.com>]  
**Sent:** Saturday, July 29, 2023 12:42 PM  
**To:** Besant, Chris  
**Cc:** Matilda Lici  
**Subject:** RE: Quality Sterling Group CCAA Application Aug 4 - Notice

Chris; Please confirm when we will be in receipt of your materials. We trust they will be delivered within sufficient time for our review and response. Thanks.

**Steven L. Graff**

T 416.865.7726  
E [sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)

**Aird & Berlis LLP**

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---

**From:** Besant, Chris <[cbesant@grllp.com](mailto:cbesant@grllp.com)>  
**Sent:** Friday, July 28, 2023 5:13 PM  
**To:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Cc:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Subject:** RE: Quality Sterling Group CCAA Application Aug 4 - Notice

Steven

Thank you for your note. Your materials have been reviewed and the QSG companies actions in response are informed by an analysis of those materials and by the surrounding facts. I don't think its productive to get into a letter writing campaign about our clients respective positions. The materials will speak for themselves. I anticipate the directors of QSG will continue acting in the best interest of QSG and its stakeholders.

With regards  
Chris

**Chris Besant** • Partner

Gardiner Roberts LLP

Bay Adelaide Centre - East Tower, 22 Adelaide St W, Ste. 3600, Toronto, ON M5H 4E3

T 416.865.4022 | F 416.865.6636 | E [cbesant@grllp.com](mailto:cbesant@grllp.com) | [www.grllp.com/p/christopherbesant](http://www.grllp.com/p/christopherbesant)

---

**From:** Steven L. Graff [<mailto:sgraff@airdberlis.com>]  
**Sent:** Friday, July 28, 2023 3:38 PM  
**To:** Besant, Chris  
**Cc:** Matilda Lici  
**Subject:** Re: Quality Sterling Group CCAA Application Aug 4 - Notice

With Prejudice

Chris, I thought I should provide you a slightly more elaborate response to your email below. To begin, it isn't clear to me that you have read the application materials in that you suggest that we are embarking upon a liquidation. To the contrary, it is our intention to engage in a SISP shortly after the commencement of the CCAA proceedings and only if a deal cannot be mutually negotiated between Ironbridge and WayGar which could avoid the necessity of such a process. What is more important is that you seem to believe that the company is operating with its own money and as if there is value in the equity. You have conceded that there isn't. WayGar is the fulcrum creditor. Any process, as it stands right now, whether CAAA or otherwise, based upon every indication we have, will only generate monies to pay cost in the ordinary cost of operations, trust and lien claims, where appropriate, and to pay WayGar. There is no prospect of any at this point of any surplus beyond those amounts. To suggest that your client can or should continue control the loss that WayGar is going to suffer is to suggest that your client is entitled to step into the lender's shoes. There is no precedent for such a scenario whatsoever.

In addition, please be advised that to the extent that any monies of the company are spent on your application process, we hereby put you and the directors on notice that we will hold them personally liable for fees incurred, and the corresponding loss that Waygar will suffer. There is no basis for your client to counter the application brought by Waygar in the circumstances. In our view, the responsible thing for you and your client to be doing is to negotiate the form of the Order to be issued in a mutually satisfactory form.

No doubt you and your client will govern yourselves accordingly.

**Steven L. Graff**, Partner and Co-lead of the Financial Services Group

**Aird & Berlis LLP**

T [416.865.7726](tel:416.865.7726)

M [416.894.5090](tel:416.894.5090)

E [sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)

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---

**From:** Besant, Chris <[cbesant@grllp.com](mailto:cbesant@grllp.com)>  
**Sent:** Friday, July 28, 2023 12:25:32 PM

To: Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>; Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>

Subject: Quality Sterling Group CCAA Application Aug 4 - Notice

Steve & Matilda

We have your advice that your client has declined to adjourn the August 4 CCAA Application it has commenced. Accordingly we are writing to notify you that:

1. the Quality Sterling Group (QSG) will be making a CCAA Application returnable at the same time as your clients application (ie on August 4, 2023 at 11 am before the Honourable Justice Penny). We will serve the materials once they are ready, but the thrust will be that
  - a. a SISP process has been run at your client's request using a financial advisor your client requested the company to use, and a buyer identified after a comprehensive process which was transparent to Waygar;
  - b. that the offer is the best obtainable
  - c. that the QSG business should be sold forthwith in the CCAA process as a going concern to best protect the interests of the stakeholders, and
  - d. that this result will be far superior to the liquidation approach proposed by your client;
2. In consequence, your client Waygar Capital Inc.'s CCAA Application will be opposed.

I trust this is of assistance.

Regards

Chris



**Chris Besant • Partner**

Gardiner Roberts LLP

Bay Adelaide Centre - East Tower, 22 Adelaide St W, Ste. 3600, Toronto, ON M5H 4E3

T 416.865.4022 | F 416.865.6636 | E [cbesant@grllp.com](mailto:cbesant@grllp.com) |

[www.grllp.com/p/christopherbesant](http://www.grllp.com/p/christopherbesant)

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**From:** Matilda Lici  
**Sent:** July 12, 2023 12:43 PM  
**To:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List  
**CC:** Steven L. Graff  
**BCC:** WayGar Capital Inc\_ re Financing of Quality Sterling Group \_ 152026 Emails \_ 152026  
**Subject:** RE: Contested CCAA application  
**Attachments:** Hearing Request Form - 12-JUL-2023(53645560.1).pdf

Thanks Also! Based on the information we have at this time, we don't believe that we would need two hours, but defer to his Honour's judgment.

I attach a revised form. Thanks again!

**Matilda Lici**

T 416.865.3428  
E [mlici@airdberlis.com](mailto:mlici@airdberlis.com)

**Aird & Berlis LLP**

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**From:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>  
**Sent:** Wednesday, July 12, 2023 11:06 AM  
**To:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Subject:** RE: Contested CCAA application

I have reported to Justice Penny that matter contested and His Honour approved 2 hrs in person hearing .  
Please amend request form  
Will you able to know at this point of opposing counsel to let them know that this in person hearing ?

Thank you

[Alsou Anissimova](#)

Superior Court of Justice  
Commercial & Estates Trial coordinator  
330 University Ave 7<sup>th</sup> floor  
Civil Trial office  
Toronto, Ontario  
M5G 1R7  
Tel: (416) 327-5047  
Email: [MAG.CSD.To.SCJCOM@ONTARIO.CA](mailto:MAG.CSD.To.SCJCOM@ONTARIO.CA)

*Toronto Commercial List – Commencing May 9, 2022 , Ministry Zoom coordinates will be used, created and uploaded by court staff into CaseLines. Zoom coordinates for hearings will no longer need to be provided by the parties.*

Please note that counsel for the moving party is responsible for inviting all required counsel/parties on a file to CaseLines for upcoming hearings.

Please note when providing the request form for scheduling via e-mail , please copy (cc ) request form to all required counsel.

---

**From:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Sent:** July 12, 2023 11:00 AM  
**To:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>  
**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Subject:** RE: Contested CCAA application

**CAUTION -- EXTERNAL E-MAIL - Do not click links or open attachments unless you recognize the sender.**

Hi Alsou,

Thanks so much for accommodating! Here's the request form.

Matilda Lici

T 416.865.3428  
E [mlici@airdberlis.com](mailto:mlici@airdberlis.com)

Aird & Berlis LLP

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**From:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>  
**Sent:** Wednesday, July 12, 2023 10:16 AM  
**To:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Subject:** RE: Contested CCAA application

Hello!

Justice Penny available to hear the matter on August 4, we can accommodate 90 min , at 11:00am.

Please provide request form .

Thank you

Alsou Anissimova

Superior Court of Justice  
Commercial & Estates Trial coordinator  
330 University Ave 7<sup>th</sup> floor

Civil Trial office  
Toronto, Ontario  
M5G 1R7  
Tel: (416) 327-5047  
Email: [MAG.CSD.To.SCJCOM@ONTARIO.CA](mailto:MAG.CSD.To.SCJCOM@ONTARIO.CA)

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Please note that counsel for the moving party is responsible for inviting all required counsel/parties on a file to CaseLines for upcoming hearings.

Please note when providing the request form for scheduling via e-mail , please copy (cc ) request form to all required counsel.

---

**From:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Sent:** July 11, 2023 11:30 PM  
**To:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>  
**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Subject:** RE: Contested CCAA application

**CAUTION -- EXTERNAL E-MAIL - Do not click links or open attachments unless you recognize the sender.**

Hi Alsou,

As requested, I attach the preliminary draft notice of application. Please let us know what dates are available for a 1 hr hearing, and we'll submit a request form to secure same as soon as possible.

Thanks!

Matilda Lici

T 416.865.3428  
E [mlici@airdberlis.com](mailto:mlici@airdberlis.com)

Aird & Berlis LLP

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**From:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>  
**Sent:** Tuesday, July 11, 2023 3:37 PM  
**To:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Subject:** RE: Contested CCAA application

Can you provide the draft notice of application ?  
I have to report and forward to team leader judge .

Thank you



## Alsou Anissimova

Superior Court of Justice

Commercial & Estates Trial coordinator

330 University Ave 7<sup>th</sup> floor

Civil Trial office

Toronto, Ontario

M5G 1R7

Tel: (416) 327-5047

Email: [MAG.CSD.To.SCJCOM@ONTARIO.CA](mailto:MAG.CSD.To.SCJCOM@ONTARIO.CA)

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---

**From:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>

**Sent:** July 11, 2023 2:59 PM

**To:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>

**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>

**Subject:** RE: Contested CCAA application

**CAUTION -- EXTERNAL E-MAIL - Do not click links or open attachments unless you recognize the sender.**

Hi Alsou, yes this is a new CCAA (application not issued yet).

Matilda Lici

T 416.865.3428

E [mlici@airdberlis.com](mailto:mlici@airdberlis.com)

Aird & Berlis LLP

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**From:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>

**Sent:** Tuesday, July 11, 2023 2:57 PM

**To:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>

**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>

**Subject:** RE: Contested CCAA application

Hello!

Please let me know if this is a new CCAA.

Thank you

Alsou Anissimova

Superior Court of Justice  
Commercial & Estates Trial coordinator  
330 University Ave **7<sup>th</sup> floor**  
Civil Trial office  
Toronto, Ontario  
M5G 1R7  
Tel: (416) 327-5047  
Email: [MAG.CSD.To.SCJCOM@ONTARIO.CA](mailto:MAG.CSD.To.SCJCOM@ONTARIO.CA)

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Please note that counsel for the moving party is responsible for inviting all required counsel/parties on a file to CaseLines for upcoming hearings.

Please note when providing the request form for scheduling via e-mail , please copy (cc ) request form to all required counsel.

---

**From:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Sent:** July 11, 2023 12:03 PM  
**To:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>  
**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Subject:** RE: Contested CCAA application

**CAUTION -- EXTERNAL E-MAIL - Do not click links or open attachments unless you recognize the sender.**

Good afternoon,

Could you please advise whether August 4<sup>th</sup> or 8<sup>th</sup> are still available. If not, kindly advise of available court time for a one hour CCAA application.

Thank you!

Matilda Lici

T 416.865.3428  
E [mlici@airdberlis.com](mailto:mlici@airdberlis.com)

Aird & Berlis LLP

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**From:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>  
**Sent:** Wednesday, July 5, 2023 9:17 AM  
**To:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Subject:** RE: Contested CCAA application

Hello

**Next available dates for 60 min**

**August 4, or 8**

Thanks  
Mannie

REMINDER:

**Kindly, continue to reply/ respond/communicate on the original email chain.  
It helps us assist you better.**

Thank-you  
Ms. Mannie Maneli  
Assistant Trial Coordinator  
Commercial, Estates, Civil, Trial Scheduling Office

---

**From:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Sent:** July 5, 2023 8:47 AM  
**To:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>  
**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Subject:** Re: Contested CCAA application

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Thanks, Mannie! Could we also enquire about 1hr dates.

Thanks!

Matilda Lici  
T [416.863.1500](tel:416.863.1500) x3428  
E [mlici@airdberlis.com](mailto:mlici@airdberlis.com)

Aird & Berlis LLP

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**From:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>  
**Sent:** Wednesday, July 5, 2023 8:21:16 AM  
**To:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>  
**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>  
**Subject:** RE: Contested CCAA application

Hi

Kindly copy all Parties when submitting the form

To schedule 1.5 hrs hearings Parties must attend a scheduling apt.

Next available dates for 15 min

July 14, 17, 20, 21, 25, 27, or 28, 2023

Please email a request form to secure the date

Thanks  
Mannie

REMINDER:

Kindly, continue to reply/ respond/communicate on the original email chain.  
It helps us assist you better.

Thank-you  
Ms. Mannie Maneli  
Assistant Trial Coordinator  
Commercial, Estates, Civil, Trial Scheduling Office  
**Bus. Hours 8:30 AM to 4:30 PM**

---

**From:** Matilda Lici <[mlici@airdberlis.com](mailto:mlici@airdberlis.com)>

**Sent:** July 4, 2023 4:59 PM

**To:** JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>; JUS-G-MAG-CSD-Toronto-SCJ Commercial List <[MAG.CSD.To.SCJCom@ontario.ca](mailto:MAG.CSD.To.SCJCom@ontario.ca)>

**Cc:** Steven L. Graff <[sgraff@airdberlis.com](mailto:sgraff@airdberlis.com)>

**Subject:** Contested CCAA application

**CAUTION -- EXTERNAL E-MAIL - Do not click links or open attachments unless you recognize the sender.**

Good afternoon Alsou,

Could you please advise on the earliest available dates for a 1.5 hr contested CCAA application? There is some urgency to the matter given the quantum of the indebtedness (~50 million) and the limited prospects facing the debtor.

Thanks as always!

Matilda Lici

T 416.865.3428  
F 416.863.1515  
E [mlici@airdberlis.com](mailto:mlici@airdberlis.com)

Aird & Berlis LLP | Lawyers  
Brookfield Place, 181 Bay Street, Suite 1800  
Toronto, Canada M5J 2T9 | [airdberlis.com](http://airdberlis.com)




Commercial List File Number:	YR/CL/#####
Civil File Number:	YR/CV/#####

Date Filed: July 12, 2023

**SUPERIOR COURT OF JUSTICE – COMMERCIAL LIST**  
REQUEST FORM NEW MATTER

A	Short Title of Proceeding: <b>WAYGAR CAPITAL INC. v. QUALITY RUGS OF CANADA LIMITED et al.</b>		
B	The estimated time for the hearing of this matter is:		
	# Minutes	<b>2 Hour(s)</b>	# Day(s)
C	If hearing is to be 1 day or more in duration, please provide an estimate of reading time required for judge to prepare for hearing		
	# Minute(s)	# Hour(s)	# Day(s)
D	The matter concerns (indicate one of the categories from the Practice Direction, (2002), 57 O.R. (3 <sup>rd</sup> ) 97 par 1 (if under clause 1(l), indicate nature of the matter and state briefly why it should be listed on the Commercial List): <b>Waygar Capital Inc., in its capacity as the primary secured lender of Quality Rugs of Canada Limited and other related companies brings this application for an order declaring that the Respondents are companies to which the Companies' Creditors Arrangement Act applies, and for a monitor to be appointed.</b>		
E	State the date(s) and time(s) for hearing the matter that has (have) been arranged with other counsel.:		
	(1) <b>AUGUST 4, 2023</b>	(2)	(3)
F	Specify if this matter is already being dealt with in the court system (giving particulars as court number and office, when and by what judge or other judicial official). Advise of any known judicial conflicts. <b>New matter.</b>		
G	The following materials will be necessary for the matter to be considered. (It is the responsibility of counsel to confirm that the proper materials are available for the Court.)  Application Record of Waygar Capital Inc. and responding materials of Respondents, if any		

COUNSEL FOR APPLICANT/MOVING PARTY		COUNSEL FOR OTHER PARTY	
<b>Party</b>	WAYGAR CAPITAL INC.	<b>Party</b>	
<b>Counsel</b>	AIRD & BERLIS LLP Steven Graff/Matilda Lici  PRINT AND SIGN OR INITIAL	<b>Counsel</b>	PRINT AND SIGN OR INITIAL
<b>Address</b>	181 Bay Street, Suite 1800 Toronto, ON M5J 2T9	<b>Address</b>	
<b>Phone</b>	416.865.3428	<b>Phone</b>	
<b>Fax</b>	416.863.1515	<b>Fax</b>	
<b>E-Mail</b>	<a href="mailto:sgraff@airdberlis.com">sgraff@airdberlis.com</a> <a href="mailto:mlici@airdberlis.com">mlici@airdberlis.com</a>	<b>E-Mail</b>	

(IF MORE THAN 2 PARTIES INVOLVED, ADD ADDITIONAL SIGNATURES AND PARTICULARS ON REVERSE OR SEPARATE PAGE)

To be submitted to: Commercial List Office, 330 University Avenue, 7<sup>th</sup> Floor, Toronto Ontario **Fax to: (416) 327-6228**  
You may also convert to PDF and email to [Toronto.Commerciallist@jus.gov.on.ca](mailto:Toronto.Commerciallist@jus.gov.on.ca)

<b>Endorsement/Disposition</b> <input type="checkbox"/> See attached Yellow Endorsement Form
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