

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**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 LTD AND THE OTHER COMPANIES
LISTED IN SCHEDULE A ATTACHED HERETO**

Applicants

**FIRST REPORT TO THE COURT OF
RSM CANADA LIMITED, IN ITS CAPACITY AS MONITOR OF THE APPLICANTS**

September 1, 2023

Table of Contents

I.	INTRODUCTION	1
	Purpose of Report	3
	Terms of Reference.....	4
II.	ACTIVITIES OF THE COMPANIES SINCE FILING DATE	5
III.	ACTIVITIES OF THE MONITOR SINCE FILING DATE	6
IV.	DIP FACILITY AND INCREASE IN DIP LENDER’S CHARGE	7
V.	REQUESTED STAY EXTENSION	8
VI.	COURT ORDERED CHARGES	9
VII.	DISCHARGE OF INTERIM LENDER’S CHARGE	10
VIII.	CONSTRUCTION ACT ISSUES	10
IX.	CONCLUSION	11

Appendices

August 4th Order..... A

RSM Pre-Filing Report (without appendices) B

RSM Supplemental Pre-Filing Report (without appendices)..... C

August 18th Order..... D

August 23rd Order..... E

Second RSM Supplemental Pre-Filing Report (without appendices)..... F

Initial Order G

Cash Flow Forecast H

Monitor’s Certificate I

I. INTRODUCTION

1. On August 4, 2023, pursuant to competing *Companies' Creditors Arrangement Act* (“**CCAA**”) applications by Quality Rugs of Canada Limited and the other companies listed in Schedule A attached hereto (collectively referred to herein as “**QSG**” or the “**Applicants**” or the “**Companies**”) and its senior secured lender, Waygar Capital Inc. (“**Waygar**”), as well as an alternative application by Waygar for the appointment of a receiver (together “**Applications**”), the Court issued an order (the “**August 4th Order**”) under the CCAA, which, *inter alia*:
 - (a) adjourned the Applications, from August 4, 2023 to August 18, 2023 (the “**Stay Period**”);
 - (b) granted a stay of any Proceedings against QSG or affecting the Business or the Property of QSG and the exercise of any rights and remedies of any Person against QSG until August 18, 2023, or such later date as the Court may order;
 - (c) entitled QSG to continue to utilize the central cash management system in place as described in the Affidavit of Don Rogers sworn July 24, 2023 (the “**Rogers Affidavit**”);
 - (d) authorized and empowered QSG to obtain and borrow under a credit facility from Waygar up to \$1.5 million (the “**Waygar Interim Facility**”), strictly for the purpose of financing the Debtors’ payroll obligations, certain professional fees and the amounts from time to time owing to the Debtors’ installers during the Stay Period, or any other suppliers which all Advisors deem critical to the uninterrupted, continued operations of the business of QSG, which credit facility was to be on the terms and subject to the conditions set forth in the commitment letter between the Fuller Landau Group Inc. and Waygar in the form attached to the Rogers Affidavit;
 - (e) granted a first ranking charge against QSG’s Property in favour of Waygar for any borrowings against the Waygar Interim Facility (the “**Interim Lender’s Charge**”); and

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- (f) sealed the Affidavit of Don Rogers sworn July 31, 2023, inclusive of the Confidential Exhibits “A” and “B” appended thereto, and the confidential appendices appended to the pre-filing report of RSM dated August 3, 2023 (the “**RSM Pre-Filing Report**”), pending court approval of a sale transaction or other arrangement in respect of QSG or further Order of the Court.
2. A copy of the August 4th Order is attached hereto as **Appendix “A”** and a copy of the RSM Pre-Filing Report, without appendices, is attached hereto as **Appendix “B”**.
 3. On August 17, 2023, Goodmans served the supplemental pre-filing report of RSM dated August 17, 2023 (the “**RSM Supplemental Pre-Filing Report**”). A copy of the RSM Supplemental Pre-Filing Report, without appendices, is attached hereto as **Appendix “C”**.
 4. On August 18, 2023, the Court issued an order (the “**August 18th Order**”), which *inter alia*:
 - (a) further adjourned the Applications to August 23, 2023 (the “**Hearing Date**”); and
 - (b) extended the Stay Period until the Hearing Date.
 5. A copy of the August 18th Order is attached hereto as **Appendix “D”**.
 6. On August 23, 2023, the Court issued an order (the “**August 23rd Order**”), which further extended the Stay Period to August 25, 2023, on the same principal terms as the August 18th Order. A copy of the August 23rd Order is attached hereto as **Appendix “E”**.
 7. On August 25, 2023, Goodmans served the second supplemental pre-filing report of RSM dated August 25, 2023 (the “**Second RSM Supplemental Pre-Filing Report**”). A copy of the Second RSM Supplemental Pre-Filing Report, without appendices, is attached hereto as **Appendix “F”**.
 8. On August 25, 2023 (the “**Filing Date**”), QSG sought and obtained an initial order (the “**Initial Order**”), under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), from the Ontario Superior Court of

Justice (Commercial List) (the “**Court**”). A copy of the Initial Order is attached hereto as **Appendix “G”**. The Companies proceedings pursuant to the CCAA are referred to herein as the “**CCAA Proceedings**”.

9. The Initial Order, among other things:
 - (a) appointed RSM Canada Limited (“**RSM**”) as monitor (in such capacity, the **Monitor**);
 - (b) granted a Stay of Proceedings against the Companies and Directors and Officers (as those terms are defined in the Initial Order) for the period to and including September 5, 2023 (the “**Stay of Proceedings**”);
 - (c) approved a debtor-in-possession facility (the “**DIP Facility**”) from Ironbridge Equity Partners IV LP and Ironbridge Equity Partners (International) IV, LP (collectively, the “**DIP Lender**”) pursuant to which, among other things, the DIP Lender would provide an initial amount of up to \$3,500,000 (the “**Initial Availability Advance**”) in accordance with the Cash Flow Forecast (as defined herein) to be advanced during the initial 10 days of the CCAA (the “**Comeback Period**”); and
 - (d) granted the Administration Charge, Directors’ Charge, DIP Lenders’ Charge, Financial Advisor’s Charge and Lien Charge (all defined in the Second RSM Supplemental Pre-Filing Report).
10. The comeback hearing is scheduled for September 5, 2023 (the “**Comeback Hearing**”).
11. Copies of the various materials pertaining to the CCAA Proceedings are available on the Monitor’s website at <http://www.rsmcanada.com/quality-sterling-group> (the “**Monitor’s Website**”).

Purpose of Report

12. The purpose of this first report (the “**First Report**”) is to provide the Court with:
 - (a) information pertaining to the activities of the Companies and the Monitor since the Filing Date; and

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- (b) the Monitor's views and recommendations on the relief sought by the Applicants at the Comeback Hearing, being:
- i. a proposed Amended and Restated Initial Order (the "**ARIO**") which would, *inter alia*:
 - increase the DIP Lender's Charge from \$3,500,000 to \$7,000,000
 - extend the Stay of Proceedings to October 31, 2023 (the "**Requested Stay Extension**");
 - make a change to the Property over which the Administration Charge, Directors' Charge, Financial Advisor's Charge and Lien Charge have priority; and
 - discharge the Interim Lender's Charge in favour of Waygar; and
 - ii. a lien regularization order, consistent with orders in other construction focused CCAA matters, which will provide a more complete process to deal with construction lien and trust issues in an organized fashion.

Terms of Reference

13. In preparing the First Report and making the comments herein, the Monitor has relied upon unaudited financial information, books and records and financial information prepared by the Applicants, discussions with QSG management, Ironbridge Equity Partners Management Limited ("**Ironbridge**") and counsel to Ironbridge, QSG and the Monitor (collectively, the "**Information**").
14. Certain of the information contained in the First Report may refer to, or is based on, the Information. Since the Information has been provided by other parties or was obtained from documents filed with the Court in this matter, the Monitor has relied on the Information and, to the extent possible, reviewed the Information for reasonableness. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would

wholly or partially comply with Canadian Auditing Standards pursuant to the *Chartered Professional Accountants Canada Handbook* (the “**CPA Handbook**”). Accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information.

15. Some of the information referred in the First Report consists of forecasts and projections. The Monitor has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the CPA Handbook.
16. Future oriented financial information referred to in the First Report was prepared based on the Applicants’ estimates and assumptions about future events. Readers are cautioned that, since projections are based on future events and conditions that are not ascertainable, the actual results achieved will or may vary from the projections, even if the assumptions materialize, and these variations may be significant.
17. Capitalized terms not otherwise defined herein are as defined in the Pre-Filing Report, the August 4th Order, the Supplemental RSM Pre-Filing Report, the August 18th Order, the August 25th Order, the Second RSM Supplemental Pre-Filing report, the Initial Order or in the Rogers Affidavit and affidavits of J. Pacione sworn on August 3, 17 and 22, 2023.
18. Unless otherwise stated, all dollar amounts contained in the First Report are expressed in Canadian dollars.

II. ACTIVITIES OF THE COMPANIES SINCE FILING DATE

19. Since the Filing Date, the Monitor understands that Management has, among other things, undertaken the following activities:
 - (a) held a townhall for the Companies’ employees on August 29, 2023 to explain the impact of the CCAA Proceedings, answer any questions the employees had in respect of the CCAA Proceedings and hear from a representative of Ironbridge;

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- (b) communicated with various secured and unsecured creditors including suppliers and customers;
 - (c) requested and received a drawdown of the DIP Facility in the amount of \$3,000,000 under the DIP Facility Agreement (as defined herein);
 - (e) managed cash flow and made disbursements in accordance with the Initial Order, in consultation with the Monitor; and
 - (f) continued discussions with Ironbridge (as defined herein) regarding the proposed going concern transaction.

III. ACTIVITIES OF THE MONITOR SINCE FILING DATE

- 20. Since the Filing Date, the Monitor has undertaken the following activities, among others:
 - (a) completed all statutory requirements, including, but not limited to:
 - i. the filing of Form 1 and Form 2 with the Office of Superintendent of Bankruptcy;
 - ii. mailed a notice in respect of the CCAA Proceedings to all known creditors of the Companies; and
 - iii. published a notice of the CCAA Proceedings in the Globe and Mail (National Edition) on August 31, and which is scheduled for publication again on September 7, 2023;
 - (b) updated the Monitor's Website as necessary, including posting copies of the Pre-Filing Report, Supplemental RSM Pre-Filing Report, the Second Supplemental RSM Pre-Filing Report, August 4 Order, August 18 Order, August 23 Order, the Initial Order, and other materials in connection with the CCAA Proceedings;
 - (c) communicated with various customers and creditors of the Companies to provide information about the CCAA Proceedings;

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- (d) monitored disbursements proposed by the Companies to ensure all payments were consistent with the Cash Flow Forecast; and
 - (e) prepared this First Report in connection with the Comeback Hearing.

IV. DIP FACILITY AND INCREASE IN DIP LENDER'S CHARGE

21. Pursuant to the terms of the Ironbridge DIP Facility and subject to the terms and conditions thereof, the DIP Lender agreed to make the DIP Facility available to fund the Companies' day-to-day operations, including legal and other professional costs, during the CCAA Proceedings. The amounts available to the applicants under the DIP Facility are up to a principal loan amount of \$5,000,000, with a further \$2,000,000 becoming available upon the execution of an Asset Purchase Agreement with the Purchaser. The terms of the DIP Term Sheet are described in the Second RSM Supplemental Pre-Filing Report and a copy of the DIP Term Sheet was appended thereto as Appendix "F".
22. Subject to the satisfaction of certain conditions, the DIP Term Sheet authorized the Companies to make a draw request by written notice to be delivered four business days prior to the requested date of the advance, or such shorter period as may be agreed to by the DIP Lender. The DIP Facility Agreement was executed by an officer of the Borrower and included a detailed cash flow forecast setting out a requirement of up to \$2,799,000 in respect of the Initial Availability Advance on the business day following the granting of the Initial Order. The Initial Order, however, allowed for an Initial Availability Advance not to exceed a maximum of \$3,500,000 unless permitted by further Order of the Court.
23. As discussed in the Second RSM Supplemental Pre-Filing Report, the Applicants prepared the cash flow projections for the period August 4, 2023, through to November 24, 2023 (the "**Cash Flow Forecast**"). A copy of the Cash Flow Forecast was attached to the Ironbridge DIP Term Sheet. For ease of reference, a copy of the Cash Flow Forecast is attached hereto as **Appendix "H"**.
24. On August 31, 2023, a DIP Facility draw request was made in the amount of \$3,000,000. These funds were received on August 31, 2023.

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25. As indicated in the Cash Flow Forecast, additional funding will be required following the Comeback Hearing in order to continue to operate the Companies' business during the CCAA Proceedings.
 26. The Monitor understands that QSG requires access to the additional DIP funding of up to \$5,000,000 under the DIP Facility Agreement, prior to the execution of an Agreement of Purchase and Sale, and additional \$2,000,000 thereafter. All of this is conditional on the Court having, among other things, issued an Amended and Restated Initial Order increasing the amount of the DIP Lender's Charge to an amount equal to \$7,000,000.
 27. For these reasons, and those described below, the Monitor supports the proposed increase in the DIP Lender's Charge.

V. REQUESTED STAY EXTENSION

28. The Stay of Proceedings currently expires on September 5, 2023. The Companies are seeking a further extension of the stay period to October 31, 2023, to provide them with continued breathing space to negotiate a definitive Asset Purchase Agreement with a view to closing a going concern sale with Ironbridge.
29. The LOI with Ironbridge contemplates a closing ten-days after an Approval and Vesting Order may be issued by the Court. The Monitor understands that, if a definitive agreement is reached with Ironbridge, the Companies intend to return to Court to seek approval of a sale transaction.
30. In the event an Asset Purchase Agreement with Ironbridge cannot be reached, the Monitor understands that Waygar has obtained the Companies' consent to the appointment of a Receiver and that Waygar will return to Court to obtain such Order with the intention of proceeding with a receivership administration.
31. As indicated in the Cash Flow Forecast the Companies have sufficient cash for the Requested Stay Extension.
32. The Monitor supports the Requested Stay Extension for the following reasons:

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- (a) the Monitor believes that the Companies have acted and continue to act in good faith and with due diligence;
 - (b) the Requested Stay Extension provides the Companies with the time required to allow Ironbridge to continue negotiations towards a definitive agreement in respect of a sale of QSG's business;
 - (c) the Requested Stay Extension provides the Companies with time to complete a sale of the business;
 - (d) the Monitor believes that the creditors of the Companies will not be prejudiced by the Requested Stay Extension; and
 - (e) the Monitor believes that the Requested Stay Extension will allow the Companies, together with its legal advisors and the Monitor, to continue to engage with stakeholders and to maximize value.

VI. COURT ORDERED CHARGES

- 33. The Companies are seeking an amendment to the definition of Property over which the various court ordered charges have priority.
- 34. In respect of the Administration Charge, Directors' Charge, Financial Advisor's Charge and Lien charge, the definition of Property in the ARIO excludes the Borrower's Account, which is defined in the DIP Term Sheet and is the account to which the DIP Lender will be advancing funds under the DIP Term Sheet.
- 35. In respect of the DIP Lender's Charge, the definition of Property is to include the Borrower's Account.
- 36. It is the Monitor's understanding that this is a requirement of the DIP Lender and that none of the professionals to which the Administration Charge and Financial Advisor's Charge relates and the directors and officers to which the Directors' Charge relates have any issue with this amendment.

VII. DISCHARGE OF INTERIM LENDER'S CHARGE

37. As set out previously herein, pursuant to the August 4th Order, Waygar was granted the Interim Lender's Charge for borrowings against the Waygar Interim Facility.
38. The Monitor understands that on September 1, 2023, pursuant to a payout statement received from counsel to Waygar dated August 28, 2023, QSG paid out the Waygar Interim Facility in full. The Monitor has filed with the Court a certificate dated September 1, 2023 (the "**Monitor's Certificate**") to this effect. A copy of the Monitor's Certificate is attached hereto as **Appendix "I"**.

VIII. CONSTRUCTION ACT ISSUES

39. The Monitor and the Company have received a significant number of emails and letters from either property owners, contract counterparties or suppliers to the QSG Business, either asserting Lien Claims under paragraphs 18 through 22 of the Initial Order, or objecting to that process on various grounds, or both.
40. The Monitor, together with its counsel and counsel for the Applicants have discussed these matters at some length and believe that the best way to approach these complex issues, and to provide as much comfort as possible to affected parties, is to seek a Lien Regularization Order, consistent with the approach which was taken in the Comstock and Carillion matters approved by this Court in 2013 and 2018, respectively. Obviously, the process in this case would be customized to QSG's circumstances.
41. This approach has been socialized with counsel for both Waygar and the Purchaser, and they are generally supportive. Counsel for the Monitor and the Applicants are presently drafting a form of such order. It is likely that the Monitor will not have a form of order available before this Report must be finalized and served, but a draft will be circulated among counsel as soon as possible.
42. In that regard, the Monitor simply raises the possibility that the Applicants may seek to have the form of Amended and Restated Initial Order issued, with the current paragraphs 18 through 22 still in the order, and will request another date,

perhaps later in the week, to seek the Lien Regularization Order in a more organized and, hopefully, consensual, fashion.

IX. CONCLUSION

43. Based on the foregoing, the Monitor respectfully recommends that this Court grant the Amended and Restated Initial Order in the form sought, and provide for a return date to deal with a more fulsome and organized lien regularization process.

All of which is respectfully submitted to this Court as of this 1st day of September, 2023.

RSM CANADA LIMITED

solely in its capacity as Proposed CCAA
Monitor of the Quality Sterling Group and
not in its personal or corporate capacity



Per: Arif Dhanani, CPA, CA, CIRP, LIT
Vice-President

Schedule “A” – Other Applicants

A.1 QSG Opcos (in addition to QRCL)

1. Timeline Floors Inc.
2. Ontario Flooring Ltd
3. Weston Hardwood Design Centre Inc
4. Malvern Contract Interiors Limited

A.2 Holding Companies

5. Quality Commercial Carpet Corporation;
6. Joseph Douglas Pacione Holdings Ltd.;
7. John Anthony Pacione Holdings Ltd.;
8. Jopac Enterprises Limited;
9. Patjo Holdings Inc.

APPENDIX A

Court File No. CV-23-00703292-00CL

Court File No. CV-23-00703933-00CL

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

THE HONOURABLE MR.

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FRIDAY, THE 4TH

JUSTICE PENNY

)

DAY OF AUGUST, 2023

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B E T W E E N:

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

Applicant

- and -

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

Respondents

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
OTHER COMPANIES LISTED IN SCHEDULE "A" HERETO

ORDER

THIS APPLICATION, made by the Applicant, in its capacity as lender to and secured creditor of the Respondents, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the application materials delivered by the Applicant and the application materials delivered by the Respondents, both as respondents to this Application and as Applicants in respect of the Application commenced under Court File No. CV-23-00703933-00CL (the “**Debtor-Led Application**”), and on hearing the submissions of counsel for the Applicant, counsel for the Respondents, and such other parties listed on the Counsel Slip,

ADJOURNMENT

1. **THIS COURT ORDERS AND DECLARES** that both this application and the Debtor-Led Application be and they are hereby adjourned until August 18, 2023 (the “**Hearing**”), without prejudice to the ability of any party to make submissions and take positions in respect of the substantive relief sought at the Hearing, or in respect of the relief sought in the application of the Applicant seeking to appoint a receiver over the Respondents, commenced under court file number CV-23-00703874-00CL.

DUTY TO PROVIDE ACCESS AND CO-OPERATION

2. **THIS COURT ORDERS** that the Debtors and all of their current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on their instructions or on their behalf shall fully co-operate with each of the Applicant, The Fuller Landau Group Inc., and RSM Canada Limited (collectively, the “**Advisors**”), including by responding to reasonable requests for information or documentation.

(a)

POSSESSION OF PROPERTY AND OPERATIONS

3. **THIS COURT ORDERS** that each of the Debtors shall remain in possession and control of its Property.

NO PROCEEDINGS AGAINST THE DEBTORS OR THE PROPERTY

4. **THIS COURT ORDERS** that until and including August 18, 2023, or such later date as this Court may order (the “**Stay Period**”), no proceeding or enforcement process in any court or tribunal (each, a “**Proceeding**”) shall be commenced or continued against or in respect of any of the Debtors or affecting the Business or the Property, and any and all Proceedings currently

under way against or in respect of the Debtors or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

5. **THIS COURT ORDERS** that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the Debtors, or affecting the Business or the Property, are hereby stayed and suspended, provided that nothing in this Order shall (i) empower the Debtors to carry on any business which the Debtors are not lawfully entitled to carry on, (ii) prevent the filing of any registration to preserve or perfect a security interest, or (iii) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

6. **THIS COURT ORDERS** that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the any of the Debtors.

CONTINUATION OF SERVICES

7. **THIS COURT ORDERS** that during the Stay Period, all Persons having oral or written agreements with the Debtors or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Business or the Debtors, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by any of the Debtors, and that the Debtors shall be entitled to the continued use of their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Debtors in accordance with normal payment practices of the Debtors or such other practices as may be agreed upon by the supplier or service provider and each of the Debtors, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

8. **THIS COURT ORDERS** that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of lease or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Debtors. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

CASH MANAGEMENT

9. **THIS COURT ORDERS** that the Debtors shall be entitled to continue to utilize the central cash management system currently in place as described in the Affidavit of Don Rogers sworn July 24, 2023 (the "**Cash Management System**") and that any present or future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by or on behalf of the Debtors of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter defined) other than the Debtors, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

10. **THIS COURT ORDERS** that any disbursement from the funds that accrue in the Blocked Account (as that term is defined in the Affidavit of Don Rogers sworn July 24, 2023) shall be disbursed only on the consent of the Advisors, who shall approve only those obligations that, in the opinion of the Advisors, are critical to the uninterrupted, continued operations of the business of the Debtors, which critical obligations the Advisors agree shall include (a) Debtors' payroll obligations; (b) all HST liabilities accrued up to the date of this Order not to exceed the amount of \$426,000, (c) the reasonable fees of Gardiner Roberts LLP, as counsel for the Respondents, incurred or to be incurred in dealing with these proceedings, (d) additional retainers of \$25,000 for each of RSM Canada Limited and its counsel, Goodmans LLP, and (e)

the amounts from time to time owing to the Debtors' installers, and any other suppliers deemed critical to the uninterrupted, continued operations of the business of the Debtors, up to the date of the Hearing.

INTERIM FINANCING

11. **THIS COURT ORDERS** that the Debtors are hereby authorized and empowered to obtain and borrow under a credit facility from Waygar Capital Inc. (the "**Interim Lender**") strictly for the purpose of financing the Debtors' payroll obligations and the amounts from time to time owing to the Debtors' installers during the Stay Period, or any other suppliers which all Advisors deem critical to the uninterrupted, continued operations of the business of the Debtors, provided that borrowings under such credit facility shall not exceed \$1,500,000.00 unless permitted by further Order of this Court.

12. **THIS COURT ORDERS THAT** such credit facility shall be on the terms and subject to the conditions set forth in the commitment letter between Fuller and the Interim Lender substantially in the form attached as an exhibit to the Supplementary Affidavit of Don Rogers sworn August 3, 2023 (the "**Commitment Letter**").

13. **THIS COURT ORDERS** that the Debtors are hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the "**Definitive Documents**"), as are contemplated by the Commitment Letter or as may be reasonably required by the Interim Lender pursuant to the terms thereof, and the Debtors are hereby authorized and directed to pay and perform all of their indebtedness, interest, fees, liabilities and obligations to the Interim Lender under and pursuant to the Commitment Letter and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

14. **THIS COURT ORDERS** that the Interim Lender shall be entitled to the benefit of and is hereby granted a first-ranking charge (the "**Interim Lender's Charge**") on the Property, which Interim Lender's Charge shall not secure an obligation that exists before this Order is made.

15. **THIS COURT ORDERS AND DECLARES** that the Interim Lender shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicant under the CCAA, or

any proposal filed by the Applicant under the *Bankruptcy and Insolvency Act* of Canada (the "BIA"), with respect to any advances made under the Definitive Documents.

16. **THIS COURT ORDERS** that the filing, registration or perfection of the Interim Lender's Charge shall not be required, and that the Interim Lender's Charge shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Interim Lender's Charge coming into existence, notwithstanding any such failure to file, register, record or perfect.

17. **THIS COURT ORDERS** that the Interim Lender's Charge shall constitute a charge on the Property and shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "Encumbrances") in favour of any Person.

18. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Debtors shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, the Interim Lender's Charge.

19. **THIS COURT ORDERS** that, notwithstanding anything in this Order, including any language granting priority charges over the Property of the Debtors, the issue as to priority as among the Charges, including the Interim Lender's Charge, and the security held by Mohawk Carpet Distribution, Inc. ("Mohawk"), including any purchase money security interest shall be deferred to the Hearing, or as may be otherwise agreed to by the parties. The Debtors shall identify and segregate any proceeds received in respect of goods presently in the possession of the Debtors as supplied by Mohawk in a separate bank account.

SERVICE AND NOTICE

20. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the "Protocol") is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to

Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission.

SEALING

21. **THIS COURT ORDERS** that the Supplementary Affidavit of Don Rogers, sworn July 31, 2023, inclusive of the Confidential Exhibits “A” and “B” appended thereto, and the confidential appendices appended to the Pre-Filing Report of RSM Canada Limited dated August 3, 2023, be and are hereby sealed pending the earlier of court approval of a sale transaction or other arrangement in respect of the Debtors or further Order of the Court.

GENERAL

22. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order.

23. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.



Schedule “A” – Other Applicants

A.1 Other Applicants - QSG Opcos (in addition to QRCL)

1. Timeline Floors Inc.
2. Ontario Flooring Ltd
3. Weston Hardwood Design Centre Inc
4. Malvern Contract Interiors Limited

A.2 Holding Companies to be Protected by the CCAA Stay

5. Quality Commercial Carpet Corporation;
6. Joseph Douglas Pacione Holdings Ltd.;
7. John Anthony Pacione Holdings Ltd.;
8. Jopac Enterprises Limited;
9. Patjo Holdings Inc.

53898300.1

APPENDIX B

Court File No.:

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**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 CANADA LTD., TIMELINE FLOORS INC., ONTARIO
FLOORING LTD., WESTON HARDWOOD DESIGN CENTRE INC. AND
MALVERN CONTRACT INTERIORS LIMITED**

Applicants

**PRE-FILING REPORT TO THE COURT OF RSM CANADA LIMITED,
IN ITS CAPACITY AS PROPOSED MONITOR OF THE APPLICANTS**

August 3, 2023

Table of Contents

I.	INTRODUCTION	1
	Purpose of Report	2
	Terms of Reference.....	3
	RSM's Qualifications to Act as Monitor	4
II.	BACKGROUND	5
III.	QSG CASH FLOW FORECAST	6
IV.	FULLER LANDAU LLP CASH FLOW	10
V.	DIP FINANCING	12
VI.	PRE-FILING SISF AND LETTER OF INTENT	13
VII.	STATEMENT OF ESTIMATED REALIZATIONS	18
VIII.	COURT ORDERED CHARGES	18
	Administration Charge	18
	DIP Lender's Charge	19
	Lien Charge.....	19
	Directors' and Officers' Charge.....	20
	Financial Advisor's Charge	20
IX.	CONCLUSIONS AND RECOMMENDATIONS	21

Appendices

Consent to Act A

Cash Flow B

Management’s Report on Cash Flow Forecast..... C

Comparative DIP Summary..... D

A&M Pre-filing SISP Report (redacted) E

LOI (redacted)..... F

I. INTRODUCTION

1. RSM Canada Limited (“**RSM**”) understands that on August 3, 2023, Quality Sterling Group (“**QSG**”), comprising Quality Rugs of Canada Limited, Timeline Floors Inc., Malvern Contract Interiors Limited, Ontario Flooring Ltd., Western Hardwood Design Centre and various QSG holding companies (collectively referred to herein as the “**Applicants**” or QSG) made an application to the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) for an order (the “**Initial Order**”) granting, *inter alia*, a stay of proceedings (the “**Stay of Proceedings**”) in favour of the Applicants pursuant to the *Companies’ Creditors Arrangement Act* (the “**CCAA**”). RSM submits this report to the Court in its capacity as the proposed monitor (the “**Proposed Monitor**”) of the Applicants.
2. RSM has consented to act as Monitor if appointed by the Court.
3. The Applicants are seeking the Court’s approval of the Initial Order which, *inter alia*, would:
 - a) declare that the Applicants are parties to which the CCAA applies;
 - b) authorize QSG to complete a sale of all or substantially all of its business, assets and property to Ironbridge Equity Partners Management Limited (“**Ironbridge**” or the “**Purchaser**”), which Purchaser was selected through an exhaustive pre-filing sales and investment solicitation process (“**SISP**”) conducted by a leading North American financial advisory firm;
 - c) grant a Stay of Proceedings;
 - d) permit QSG 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 (the “**Blocked Accounts**”);
 - e) appoint RSM as monitor (once appointed in such capacity, the “**Monitor**”);
 - f) grant a Stay of Proceedings;

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- g) grant the Administration Charge, the Financial Advisor's Charge, the Directors' Charge and the Lien Charge (each as defined below) for the initial 10-day Stay of Proceedings; and
4. If the Initial Order is granted, the Applicants intend to return to Court within ten (10) days (the "**Comeback Hearing**") to seek the Court's approval of:
- a) an amended and restated Initial Order (the "**Amended and Restated Initial Order**") which, *inter alia*, would:
- i. extend the Stay of Proceedings to a date to be determined;
 - ii. approve the execution by QSG of a debtor-in-possession ("**DIP**") facility loan agreement ("**DIP Facility Agreement**") with Ironbridge Equity Partners ("**Ironbridge**"), pursuant to which Ironbridge (in such capacity, the "**DIP Lender**") would make available funding of up to \$3 million, to be repaid by set off on closing of the Sale, and on the terms of a term sheet to be finalized;
 - iii. grant a DIP Lender's Charge; and
 - iv. declare that the Companies meet the criteria established by the Wage Earner Protection Program Act and the Wage Earner Protection Program Regulations.

Purpose of Report

5. The purpose of this report of the Proposed Monitor (the "**Pre-Filing Report**") is to provide the Court with information pertaining to:
- (a) RSM's qualifications to act as Monitor of the Applicants;
 - (b) a brief background about the Applicants and these proceedings;
 - (c) the Proposed Monitor's comments on certain key issues in respect of these proceedings, including:
 - i. the Applicants' cash flow projections, including cash held in the Blocked Accounts;

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- ii. a comparison of the Applicant's cash flow projections to the cash flow projections included in the pre-filing report of the Fuller Landau Group Inc. ("**FLGI**");
 - iii. the terms of a proposed DIP Facility Agreement for borrowings of \$3 million;
 - iv. the Applicants' pre-filing SISP;
 - v. a letter of intent to purchase QSG's assets; and
 - vi. the statement of estimated realizations prepared by RSM;
- (d) the Proposed Monitor's comments on the relief sought by the Applicants in connection with the Initial Order, including the Administration Charge, the Financial Advisor's Charge, the Lien Charge, the Directors Charge and the DIP Lender's Charge; and
- (e) the Proposed Monitor's conclusions and recommendations.

Terms of Reference

6. In preparing this Pre-Filing Report and making the comments herein, the Proposed Monitor has relied upon unaudited financial information, books and records and financial information prepared by the Applicants, discussions with management and the Applicants' corporate finance advisor, Alvarez & Marsal Canada Securities ULC (collectively, the "**Information**").
7. Certain of the information contained in this Pre-Filing Report may refer to, or is based on, the Information. Since the Information has been provided by other parties or was obtained from documents filed with the Court in this matter, the Monitor has relied on the Information and, to the extent possible, reviewed the Information for reasonableness. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards pursuant to the *Chartered Professional Accountants Canada Handbook* (the "**CPA**

Handbook”). Accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information.

8. Some of the information referred in this Pre-Filing Report consists of forecasts and projections. the Proposed Monitor has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the CPA Handbook.
9. Future oriented financial information referred to in this Report was prepared based on the Applicants’ estimates and assumptions about future events. Readers are cautioned that, since projections are based on future events and conditions that are not ascertainable, the actual results achieved will or may vary from the projections, even if the assumptions materialize, and these variations may be significant.
10. Capitalized terms not otherwise defined herein are defined in the affidavit of John Pacione, Co-Chief Executive Officer, of the Applicants, affirmed on August 3, 2023 in support of the Initial Order (the “**Pacione Affidavit**”).
11. Unless otherwise stated, all dollar amounts contained in the Report are expressed in Canadian dollars.
12. If the Initial Order is granted by the Court and RSM is appointed Monitor in the CCAA proceedings, RSM intends to post copies of material documents relating to QSG’s CCAA proceedings on its website at <http://www.rsmcanada.com/quality-sterling-group>.

RSM’s Qualifications to Act as Monitor

13. RSM is qualified to act as Monitor of the Applicants. RSM’s qualifications include the following:
 - a) RSM has, since on or about February 6, 2023, reviewed with the Applicants and their advisors the business and financial aspects of various operational, financial and strategic alternatives being considered. In addition, RSM has been working with the Applicants to prepare for the CCAA application,

including reviewing the cash flow projections of the Applicants for the thirteen weeks ending November 3, 2023.

- b) RSM is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). RSM is not subject to any of the restrictions to act as Monitor set out in Section 11.7(2) of the CCAA.
 - c) The senior RSM professional personnel with carriage of this matter, and who will have carriage of this matter for RSM as the Monitor (if appointed by the Court), have (i) acquired knowledge of the Applicants and their business as set out in (a) above, and (ii) are experienced insolvency and restructuring practitioners who are Chartered Professional Accountants, Chartered Insolvency and Restructuring Professionals and Licensed Insolvency Trustees who have previously acted as Monitor in other CCAA proceedings in Canada. RSM is therefore in a position to immediately assist the Applicants in their restructuring process.
14. As stated previously herein, RSM has consented to act as Monitor should the Court grant the relief sought by the Applicants in these CCAA proceedings. A copy of RSM's consent to act as Monitor is attached hereto as **Appendix "A"**.
15. The Proposed Monitor, if appointed as Monitor by the Court, intends to retain Goodmans LLP to act as its independent legal counsel.

II. BACKGROUND

16. The Pacione Affidavit filed in support of the Applicants' application for certain relief under the CCAA provides, *inter alia*, information on the background, structure and financing of the Applicants', including the reasons for the commencement of these proceedings, and therefore that information is not repeated herein. The Pre-Filing Report should be read in conjunction with the Pacione Affidavit. Certain of the information provided in the Pacione Affidavit has not been included herein in order to avoid unnecessary duplication.

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17. As set out in the Affidavit, the principal purposes of these restructuring proceedings are to (a) provide a stay of proceedings and some breathing room for QSG; (b) allow for the sale of QSG's assets and business to Ironbridge; and (c) as needed, carry out a claims process with a resulting distribution of proceeds via a plan of arrangement or otherwise.
 18. The CCAA proceedings will provide the Applicants with a stable environment in which to undertake their restructuring efforts. Without the relief sought in the Initial Order, the Applicants would be exposed to claims that would materially negatively impact the proposed restructuring.

III. QSG CASH FLOW FORECAST

19. Pursuant to paragraph 10(2)(a) of the CCAA, the Applicants have prepared a thirteen-week cash flow projection for QSG (the "**Cash Flow Forecast**") for the period from August 4, 2023 to November 3, 2023 (the "**Forecast Period**") for the purpose of projecting the estimated results of the Applicants' planned activities during the Forecast Period. A copy of the Cash Flow Forecast is attached hereto as **Appendix "B"** to this Report.
20. The Cash Flow Forecast is presented on a weekly basis and represents estimates by management of the Applicants of the projected cash flows during the Forecast Period. The Cash Flow Forecast has been prepared by management of the Applicants using probable and hypothetical assumptions as set out in the notes to the Cash Flow Forecast (the "**Assumptions**").
21. A summary of the Applicants' cash position at the commencement of proceedings and estimated total receipts and disbursements over the Forecast Period is set out below:

[remainder of page left blank intentionally]

Quality Sterling Group Cash Flow Summary (in \$000's)			
	Initial Stay Period Weeks 1 - 3	10 Week Period Weeks 4 to 13	13 Week Total
Receipts			
Accounts receivable collections	\$ 7,658	\$ 25,229	\$ 32,887
Disbursements			
Purchases of materials	\$ 4,100	\$ 15,508	\$ 19,608
Payments to subcontractors	2,260	9,586	11,846
Payroll and benefits	546	2,604	3,150
Employee Commissions	39	77	116
Rent	-	375	375
Selling, general & admin.	341	1,138	1,479
Sales taxes	426	975	1,401
Professional fees	760	577	1,337
Financing expenses	-	42	42
Contingency	125	125	250
Total disbursements	\$ 8,597	\$ 31,007	\$ 39,604
Net cash flow	\$ (939)	\$ (5,778)	\$ (6,717)
Use of cash in Blocked Account ¹	\$ 939		\$ 939
Use of cash in Blocked Account/DIP Facility		\$ 5,778	\$ 5,778
Total	\$ 939	\$ 5,778	\$ 6,717
¹ As at the filing date, there is approximately \$6 million in the Blocked Account			

22. The Cash Flow Forecast projects that the Applicants will experience a net cash outflow of approximately \$6.7 million over the Forecast Period, prior to any DIP funding, and is based on the following key assumptions:

- a) forecast receipts of \$32.9 million from collection of accounts receivable;
- b) forecast disbursements of \$38.0 million relate primarily to ordinary course payments including inventory purchases, payment to subcontractors, payroll and benefits, commissions, rent, general and administrative costs, and sales taxes;
- c) professional fees are forecast to be approximately \$1.3 million during the Forecast Period and include the Applicants' legal counsel, their corporate finance advisor (the Financial Advisor referenced herein), the Monitor and its legal counsel, and other professionals required for the CCAA Proceedings;
- d) financing expenses of \$42,000 include interest and fees on the proposed DIP Facility (as defined below); and

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- e) a contingency of \$250,000 for the Forecast Period (or an average of \$19,231 per week) is included for any unforeseen costs that may occur.
23. The Proposed Monitor notes that proceeds from the potential sales transaction (discussed below) are not reflected in the Cash Flow Forecast, which if completed would fund, among other things, an administrative reserve, a paydown of the proposed DIP Facility, and then any surplus would be used to pay down the indebtedness owing to Waygar.
24. With respect to the potential DIP Facility, while the forecast reflects that the borrowings will peak at approximately \$6.3 million by the end of the Forecast Period, the potential purchaser of the business believes that it can complete a Transaction (defined below) within a 6-week period of filing. As at the weeks ending September 15, 2023 (the end of week 6) and September 22, 2023 (the end of week 7), the forecast borrowings under the DIP Facility are \$948,000 and \$2.2 million, respectively, assuming only \$939,000 of funds in the Blocked Accounts are utilized by QSG, which is less than the maximum borrowings allowed under the DIP Facility. Furthermore, closing in that 6-week period would remove virtually all of the non-professional fee costs of QSG after that time frame and substantially reduce the total cash deficit for the period of the Cash Flow Forecast.
25. The Cash Flow Forecast indicates that, during the period between the week ending August 11, 2023 and the Comeback Hearing, QSG expects a cash outflow of approximately \$939,000 for which QSG will require funding. As discussed in QSG's notice of application, Waygar, since the end of June 2023, has been withholding 15% of QSG's accounts receivable in the Blocked Accounts, which are estimated by QSG to total approximately \$6 million. Although release of these funds is not contemplated in the Cash Flow Forecast, QSG will require at least \$939,000 of these funds to be released in order to meet its forecast obligations until the Comeback Hearing.
26. The Proposed Monitor has reviewed the Cash Flow Forecast as to its reasonableness as required by Section 23(1)(b) of the CCAA. Pursuant to this standard, the Proposed Monitor's review of the Cash Flow Forecast consisted of

inquiries, analytical procedures and discussions related to information supplied to it by management. Since the Assumptions need not be supported, the Proposed Monitor's procedures with respect to the Assumptions were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposed Monitor also reviewed the support provided by management for the Assumptions and the preparation of the Cash Flow Forecast.

27. Based on the Proposed Monitor's review, nothing has come to the Monitor's attention that causes the Monitor to believe, in all material respects, that:
 - a) the Assumptions are not consistent with the purpose of the Cash Flow Forecast;
 - b) as at the date of this Report, the Assumptions are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Forecast, given the Assumptions; or
 - c) the Cash Flow Forecast does not reflect the Assumptions.
28. As noted above, since the Cash Flow Forecast is based on estimates and assumptions regarding future events, actual results achieved will or may vary from the information presented even if the hypothetical assumptions materialize, and the variations may be significant. Accordingly, we express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Pre-Filing Report or relied upon by the Proposed Monitor in preparing this Pre-Filing Report.
29. The Cash Flow Forecast has been prepared solely for the purpose described in the notes accompanying the Cash Flow Forecast and readers are cautioned that the Cash Flow Forecast may not be appropriate for other purposes.
30. QSG management's report on the Cash Flow Forecast is attached hereto as **Appendix "C"**.

IV. FULLER LANDAU LLP CASH FLOW

31. The Proposed Monitor has reviewed the CCAA materials filed by Waygar, including the Fuller Landau Group Inc.’s (“**FLGI**”) pre-filing report and cash flow (the “**FLGI Cash Flow**”). A summary of the differences between the Applicants’ Cash Flow Forecast compared to the FLGI Cash Flow are set out below.

Cash Flow Comparison Between Summary of Cash Flows Filed by QSG and FLGI For the 13-week Period After Commencement of CCAA Proceedings (in \$000's)			
	QSG	FLGI	Difference
Receipts			
Opening cash	\$ -	\$ 500	\$ (500)
AR Collections, including holdback collections	32,887	18,999	13,888
Total receipts	\$ 32,887	\$ 19,499	\$ 13,388
Disbursements			
Inventory purchases	\$ 19,608	\$ 5,656	\$ 13,952
Subcontractors	11,846	3,651	8,195
Payroll, benefits and commissions	3,266	1,811	1,455
Rent, selling, general and admin	1,854	3,282	(1,428)
HST	1,401	(48)	1,449
Miscellaneous	292	60	232
Professional fees	1,337	600	737
Total disbursements	\$ 39,604	\$ 15,012	\$ 24,592
Net cash inflow (outflow)	\$ (6,717)	\$ 4,487	\$ (11,204)

32. Significant differences exist between the Cash Flow Forecast and the FLGI Cash Flow. While the Proposed Monitor has not had the opportunity to review the Excel file relating to FLGI Cash Flow, our observations and comments thereon are set out below.

- a) the Cash Flow Forecast assumes a going concern operation of QSG’s business; to the contrary, it appears that the FLGI Cash Flow contemplates what is effectively a wind down of the business on the basis that limited inventory is purchased, subcontractor payments are notably reduced and payroll costs decrease significantly throughout the forecast period as QSG

staff is terminated. A comparison of these costs for the 12-week period following the CCAA filing is set out below.

**Comparison of QSG Cash Flow to FLGI Cash Flow
for Inventory Purchases, Subcontractor Payments and Payroll Costs
For the 12-weeks After CCAA Filing
(in \$000's)**

Description	Week												Total
	1	2	3	4	5	6	7	8	9	10	11	12	
FLGI inventory purchases	236	236	236	236	471	471	471	471	707	707	707	707	5,656
QSG inventory purchases	1,284	1,360	1,455	1,551	1,646	1,721	1,629	1,620	1,611	1,519	1,509	1,417	18,325
FLGI subcontractor costs	152	152	152	152	304	304	304	304	456	456	456	456	3,651
QSG subcontractor costs	798	639	823	823	823	848	1,054	1,054	1,054	1,033	831	1,033	10,813
FLGI payroll costs	380	22	380	22	285	17	285	17	190	11	190	11	1,811
QSG payroll costs	25	496	25	496	25	496	25	496	25	496	25	496	3,125

- b) accounts receivable collections in the FLGI Cash Flow are only approximately 58% of those set out in the Cash Flow Forecast. Accounts receivable collections and estimated costs for subcontractors in the FLGI Cash Flow are predicated on reaching agreements with customers, which will be difficult at best if the business is not being operated as a going concern. In fact, if the customers believe that the FLGI proposal is really a wind down, collections may be worse than they project as additional set offs are applied by the customers, including those noted below in c) and d).
- c) RSM does not believe that agreements with the majority of customers will be achievable on the basis that customer contracts are currently structured such that customers can and will effectively “walk away” and seek out alternate trades that they have confidence in and trust rather than utilizing the services of an unknown party or de facto receiver, especially in what appears to be a wind down of the business. We believe that this will result in outside trades charging customers a premium to complete work commenced or entered into by QSG, which premium the customers will charge back to QSG.
- d) on the basis that it appears FLGI will be winding the business down, it will not be honouring warranties and we are of the view that customers will holdback amounts from accounts payable to QSG to cover costs in the event that deficiencies for work completed by QSG arise in the future.

V. DIP FINANCING

33. In order to provide the required liquidity needed to fund the operations of QSG during the CCAA Proceedings, the Applicants will be seeking the approval of interim financing in the form of a non-revolving loan (the “**DIP Facility**”) at the Comeback Hearing.
34. The high level terms of the proposed DIP Facility Agreement have been agreed to in principle with Ironbridge and are documented as part of the letter of intent, which has been signed by QSG and Ironbridge. (discussed below) The key terms and conditions of the proposed DIP Facility Agreement, as contained in the letter of intent, are:
- a) non-revolving loan with a maximum amount of \$3.0 million;
 - b) interest at a rate of 12% and an exit fee of \$100,000;
 - c) maturity date that is the earlier of six weeks following commencement of QSG’s CCAA proceedings and closing of the Transaction (defined below);
 - d) an extension of up to two weeks at the discretion of the DIP Lender and an additional exit fee of \$15,000 in the event that an extension is required;
 - e) obtaining an initial order under the CCAA substantially in the form of the CLUC model order and which provides that all funds currently held by Waygar in the Blocked Account (the “**Blocked Funds**”) are released and available for use by QSG; and
 - f) there are no covenants or controls specifically referenced in the letter of intent. RSM understands from the Applicants and A&M that a definitive DIP Facility Agreement will be negotiated prior to the Comeback Hearing, which may contain additional terms and conditions. As Monitor, RSM would carefully review and monitor developments on that front and would make its views known to the parties.
35. The Proposed Monitor notes that in the event that the Court orders the release of the Blocked Funds and assuming the transaction closes by week 7 after

commencement of QSG's CCAA proceedings, it may not be necessary for QSG to draw upon the DIP Facility.

36. The proposed Amended and Restated Initial Order to be requested at the Comeback Hearing, which would ideally approve the DIP Facility, would also provide for the creation of a court-ordered priority charge to secure advances made under the DIP Facility (the "**DIP Lender's Charge**") to match the maximum allowable borrowing amount, expected to be as proposed above.
37. The Proposed Monitor has reviewed the terms of various DIP funding facilities granted in insolvency and restructuring proceedings of similar size for the period July, 2022 to June, 2023 and prepared a summary in respect of the same ("**Comparative DIP Summary**"), a copy of which is attached hereto as **Appendix "D"**.
38. The Proposed Monitor notes that the interest rate of the proposed DIP Facility is below the average range observed and summarized in the Comparative DIP Summary. Subject to reviewing any additional terms in the finalized DIP Facility Agreement, the Monitor considers the proposed DIP Facility to be reasonable.
39. QSG did not solicit third parties to provide DIP financing due to, among other things, the limited time period for financial due diligence, and the intention of Ironbridge to provide DIP financing at commercially reasonable terms on an expedited basis. In addition, given the feedback from third parties solicited during QSG's refinancing efforts, QSG and the Monitor were not confident that QSG could secure such financing from a third party. In light of these circumstances, and subject to reviewing any additional terms in the finalized DIP Facility Agreement, the Proposed Monitor supports the proposed DIP Facility made available under the DIP Facility Agreement.

VI. PRE-FILING SISF AND LETTER OF INTENT

40. As part of a Credit Agreement Amendment and Accommodation Agreement dated February 14, 2023 (the "**Accommodation Agreement**") between Waygar and QSG, QSG was required to retain Alvarez & Marsal Canada Securities ULC ("**A&M**

CF) to, among other things, assist QSG in evaluating and pursuing a potential financing, restructuring or sales transaction (a "**Transaction**"). The objective of this SISP was to canvass the market to identify and engage with parties who may have interest in i) refinancing the Waygar's secured debt or in ii) acquiring QSG's business either through a (a) sale of shares, (b) sale of assets, (c) merger, (d) consolidation, or (e) other business combination. As summary of the SISP is set out below and a redacted version of A&M CF's report on same is attached hereto as **Appendix "E"**. A complete copy of A&M CF's report will be provided to the Court as **Confidential Appendix "1"** to this report.

41. A&M CF and QSG management prepared a marketing document and a confidential information memorandum (the "**CIM**") and set up and populated a virtual data room.
42. The SISP's strategy and targeting included consideration of the following:
 - a) there are no Canadian competitors of comparable size and scope with the necessary capabilities and financial capacity to execute a Transaction and meet QSG's working capital requirements. According to QSG's executive management, the largest Canadian competitor of QSG would fall within the revenue range of \$20 million to \$30 million, with possibly one or two in that category. Most, if not all, of these competitors do not have the capability to offer all three major flooring categories (i.e., tile, wood, and carpet) on a mass scale. Consequently, they lack the necessary know-how and confidence to handle this type of acquisition. Additionally, these companies are owner-operated, and many have approached QSG with the intention of being bought out, as they lack a transition plan. As a result, A&M CF did not approach any of these Canadian competitors.
 - b) A&M CF did not approach any real estate builders due to their reliance on a credible arms-length bidding process with subtrades for establishing construction budgets and securing project financing. Acquiring QSG as a builder would disrupt this competitive bidding process and negatively impact the builder's relationship with financing sources. Additionally, other major

flooring contractors would not consider it a credible bidding process and, as a result, would not invest their time and effort in submitting bids, considering it an uncompetitive environment. For builders, their core competency and business model revolve around managing multiple trades involved in their construction projects, and taking on a subtrade role, especially at the scale of QSG, falls outside their area of expertise.

- c) Based on A&M CF's extensive knowledge of the Canadian building products sector and its experience in special situations investment banking, A&M CF believed that the judgment made by QSG executive management on these matters was reasonable.
43. A&M CF, in consultation with QSG's executive management, prepared a comprehensive list of potential lenders and buyers of over 300 parties, which included traditional, non-bank and alternative lenders as well as both strategic and financial buyers across Canada, United States and internationally (the "**Potential Investors**"). These Potential Investors were identified based on specific criteria, including but not limited to: (i) an expressed interest or established investments within the contract flooring or building products industries; (ii) their financial capability to complete a transaction; (iii) experience in distressed and/or special situation transactions; and (iv) ability to execute a transaction within an expedited timeline.
44. The SISP commenced on March 13, 2023 and was conducted in two phases, which are summarized as follows:

Phase 1: involved contacting Potential Investors, facilitating initial due diligence, providing access to the CIM and electronic data room and obtaining the receipt by QSG of non-binding indications of interest ("**IOI**") for the purchase of, or investment in, all or part of QSG's business and assets. 59 Potential Investors were granted access to the virtual data room after signing a confidential information memorandum. The deadline for submission of IOIs was April 17, 2023 and 3 Potential Investors submitted IOIs. The IOI's were discussed with QSG's management and Waygar. Considering the limited number of IOIs received, A&M

CF, in consultation with QSG's executive management and Waygar, agreed to advance 2 parties to participate in Phase 2 of the SISP. Phase 1 ran from March 14, 2023 to April 21, 2023, which is a total period of 40 days.

The Monitor understands that at or about the conclusion of Phase 1 a publicly-traded Canadian strategic party (the "**Strategic Party**"), which has an American-based subsidiary directly comparable to QSG, expressed interest in acquiring QSG. Despite not submitting an IOI, the Strategic Party was invited to participate in a management meeting due to its overall knowledge of the business and potential for financial and operational synergies.

Phase 2: involved facilitating additional due diligence and organizing meetings and presentations with QSG's executive management. Following the management presentations, 1 of the Potential Investors and the Strategic Party made the decision to withdraw from the SISP, highlighting QSG's difficult financial condition and substantial challenges involved in turning around QSG's operations and restoring profitability as reasons for withdrawal. As such, one party remained (the "**Remaining Potential Investor**") with respect to pursuing a potential transaction. Phase 2 of the SISP ran from April 22, 2023 to July 25, 2023, the date the LOI was signed (see below), which is a total of 95 days. Together, Phase 1 and 2 of the SISP ran for 135 days in total.

45. Between May 16, 2023 and June 16, 2023, A&M CF facilitated follow-up meetings between the Remaining Potential Investor and Waygar to discuss the Potential Investor's Phase 1 IOI bid in detail as well as a restructured bid with a material increase in total value (the "**Restructured Bid**"). Waygar acknowledged to A&M CF that the Restructured Bid was notably closer to its estimation of QSG's liquidation value; however, it still remained below Waygar's desired threshold.
46. On July 11th, the Remaining Potential Investor formally submitted a non-binding Letter of Intent ("**LOI**") to both QSG and A&M CF. The LOI substantially reflected the Restructured Bid, with adjustments made to the total value to account for the decrease in working capital since June 16, 2023. On July 25, 2023, the LOI was executed between QSG and the Remaining Potential Investor. A redacted copy

of the LOI is attached hereto as **Appendix “F”**. A complete copy of the LOI will be provided to the Court as **Confidential Appendix “2”**.

47. QSG has advised the Proposed Monitor that it is QSG’s intention to continue to pursue this potential transaction during the CCAA Proceedings. The Proposed Monitor understands that Waygar has been provided with a copy of the LOI.
48. The Proposed Monitor is supportive of the transaction contemplated by the LOI for the following reasons:
 - a) the SISP process was entered into as a condition of the Accommodation Agreement between Waygar and QSG, and Waygar was apprised of same throughout and met with the proposed Purchaser;
 - b) the SISP was run effectively and efficiently by a known and experienced party, A&M CF;
 - c) the SISP identified and canvassed over 300 parties, including numerous lending institutions, private equity firms and strategic parties;
 - d) a sufficient period of time was allowed for the SISP, which was a total of 135 days;
 - e) 2 Potential Investors and a Strategic Party were invited to Phase 2 of the SISP; and
 - f) ultimately, an LOI was signed by QSG and one Potential Investor, which LOI, while conditional on limited remaining legal due diligence, is the best and only offer for the sale of QSG; and
 - g) a going concern sale of QSG would be in the interest of all stakeholders, including QSG’s principals, employees, suppliers, customers and Waygar.
49. The Proposed Monitor fails to see how a new, condensed SISP now run by FLGI would yield a better result, especially in light of the reductions in inventory and personnel, reflecting that they would be selling a constricting business and values would be reduced.

VII. STATEMENT OF ESTIMATED REALIZATIONS

50. RSM was requested by QSG to complete a statement of estimated realizations with respect to Waygar's security position. A final report dated June 27, 2023 (the "**Liquidation Analysis**"), based on QSG's significant assets as at May 31, 2023, was provided to QSG who then shared the report with Waygar. A copy of the Liquidation Analysis will be provided to the Court as **Confidential Appendix "3"**. In light of the deterioration in the Applicants' assets and business over the past 2 months, and the restrictions on funding from Waygar, it is expected that the overall liquidation results now would be less than those reflected in the Liquidation Analysis.

VIII. COURT ORDERED CHARGES

51. The proposed Initial Order sets out four potential charges over the property of the Applicants and a fifth potential charge if the proposed Amended and Restated Initial Order is granted. Details of same are described below. The charges, as contemplated in the proposed Initial Order and proposed Amended and Restated Initial Order, are described below in order of priority.

Administration Charge

52. The Proposed Initial Order provides for a shared charge (the "**Administration Charge**") in the maximum amount of \$750,000 to secure the fees and disbursements incurred in connection with services rendered to the Applicants (both before and after the commencement of the CCAA proceedings) by counsel to the Applicants, the Proposed Monitor, counsel to the Proposed Monitor and the Financial Advisor (in respect of its monthly fees). An administration charge is a customary provision in an Initial Order in a CCAA proceeding, required by the professionals engaged to assist a debtor entity.

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53. The amount of the Administration Charge is limited to an amount necessary to ensure the beneficiaries of the Administration Charge have adequate protection to the date of the Comeback Motion.
 54. The Administration Charge is intended to rank ahead of all other Charges created in the Initial Order, as well as all other security interests against the Applicants, once creditors with security interests are served.
 55. The Proposed Monitor is of the view that the Administration Charge and its proposed ranking are reasonable and appropriate in the circumstances.

DIP Lender's Charge

56. The proposed Amended and Restated Initial Order will provide for a DIP Lender's Charge as security for outstanding advances made under the DIP Facility provided that the borrowings shall not exceed \$3 million unless permitted by further order of this Court, as described above.
57. The proposed DIP Lender's Charge will rank subordinate to the Administration Charge. The Proposed Monitor is of the view that the proposed DIP Lender's Charge represents necessary financing which affords the Applicants the opportunity to move towards the potential sale of its business, and it does not appear that there will be material financial prejudice to other QSG stakeholders as a result of this financing.

Lien Charge

58. The proposed Initial Order provides for a Lien Charge as security for legitimate construction lien type claims, and a process for the Monitor to review and revise the quantum claimed (with rights for lien claimants to appeal), in order to extend to such claimants protections they would be stayed from exercising because of the Initial Order.
59. The Lien Charge is proposed to rank behind the DIP Lender's Charge and ahead of the Directors' Charge. The Proposed Monitor is of the view that the Lien Charge and its proposed ranking are reasonable and appropriate in the circumstances.

Directors' and Officers' Charge

60. The proposed Initial Order provides for a charge on the Property in the amount of \$600,000 (the “**Directors' Charge**”) to protect the directors and officers against obligations and liabilities they may incur as directors and officers of the Applicants after the commencement of the CCAA proceedings.
61. The Directors' Charge is proposed to rank behind the Administration Charge, DIP Lender's Charge and the Lien Charge, but ahead of all other security interests against the Property once creditors with security interests are served.
62. The Proposed Monitor has reviewed the basis of the calculation of the Directors' Charge and is of the view that the Directors' Charge and its proposed ranking are reasonable and appropriate in the circumstances.
63. The Proposed Monitor is of the view that the priority of the Proposed Charges is reasonable in the circumstances and supports the relief sought by the Applicants in this regard.

Financial Advisor's Charge

64. The QSG Group seeks an order granting a charge to secure the A&M CF (defined below) success fee promised to it in its engagement letter approved by Waygar, which charge (the “**Financial Advisor's Charge**”) shall be limited to the cash proceeds resulting from a Transaction with the Purchaser and not to other assets of QSG Group.
65. 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).
66. The A&M CF success fee, which is tied to the closing proceeds of the sale of QSG's business, is at the current market rate for such services.

IX. CONCLUSIONS AND RECOMMENDATIONS

67. The Proposed Monitor concludes that:
- a) a fulsome and thorough SISP has already been conducted by A&M CF and the market has been properly and sufficiently canvassed. It is unlikely that running a further sales process will produce a better result and may result in the current prospective purchaser withdrawing its LOI;
 - b) completing a transaction on the terms of the LOI is a far better result for all parties, including Waygar, than the liquidation scenario set out in the Liquidation Analysis report;
 - c) the terms and interest rate of the proposed DIP Facility appear to be reasonable; and
 - d) the proposed purchaser of QSG's business is desirous of closing the contemplated Transaction as soon as possible, which would allow for the continued employment of numerous individuals and uninterrupted business for QSG's contractors, trades, suppliers and customers.
68. Based on the foregoing, if the Court is satisfied that the Applicants are Companies to which the CCAA applies, the Proposed Monitor is of the view that the relief requested by the Applicants is both appropriate and reasonable.
69. Considering QSG's liquidity constraints and the need to maintain stable business operations and customer confidence, the relief requested is necessary to allow QSG the time needed to facilitate its pursuit for a sale of its business.
70. The Proposed Monitor supports the Applicants' application for CCAA protection and respectively recommends that the Court grant the relief sought in the Initial Order.

All of which is respectfully submitted to this Court as of this 3rd day of August, 2023.

RSM CANADA LIMITED

solely in its capacity as Proposed CCAA
Monitor of the Quality Sterling Group and
not in its personal or corporate capacity



Per: Arif Dhanani, CPA, CA, CIRP
Vice-President

APPENDIX C

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**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 CANADA LTD., TIMELINE FLOORS INC., ONTARIO
FLOORING LTD., WESTON HARDWOOD DESIGN CENTRE INC. AND
MALVERN CONTRACT INTERIORS LIMITED**

Applicants

**SUPPLEMENTAL PRE-FILING REPORT TO THE COURT OF
RSM CANADA LIMITED, IN ITS CAPACITY AS PROPOSED MONITOR OF THE
APPLICANTS**

August 17, 2023

Table of Contents

I.	INTRODUCTION	1
	Purpose of Report	2
	Terms of Reference.....	3
II.	DISCUSSIONS BETWEEN WAYGAR AND IRONBRIDGE	4
III.	ACTIVITIES OF THE ADVISORS	5
IV.	QSG R&D COMPARED TO THE CASH FLOW FORECAST	6
V.	BASIS FOR FLGI CASH FLOW VS. THE CASH FLOW FORECAST	8
VI.	CONCLUSIONS AND RECOMMENDATIONS	10

Appendices

August 4th Order..... A

RSM Pre-Filing Report..... B

A&M Supplementary Report..... C

I. INTRODUCTION

1. On August 4, 2023, pursuant to competing *Companies' Creditors Arrangement Act* (“**CCAA**”) applications by Quality Rugs of Canada Limited, Timeline Floors Inc., Malvern Contract Interiors Limited, Ontario Flooring Ltd., Western Hardwood Design Centre and various related holding companies (collectively referred to herein as “**QSG**”) and its senior secured lender, Waygar Capital Inc. (“**Waygar**”), and an alternative application by Waygar for the appointment of a receiver, the Court issued an order (the “**August 4th Order**”) under the CCAA, which, *inter alia*:
 - (a) adjourned the CCAA applications of both QSG and Waygar, as well as Waygar’s application for the appointment of a receiver, from August 4, 2023 to August 18, 2023 (the “**Stay Period**”);
 - (b) required that QSG and all of its current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on their instructions or on their behalf, fully cooperate with the Fuller Landau Group Inc. (“**FLGI**”) and RSM Canada Limited (“**RSM**” and together with FLGI, the “**Advisors**”);
 - (c) set out that QSG was to retain possession and control of its Property;
 - (d) granted a stay of proceedings against commencement or continuation of any Proceedings against QSG or affecting the Business or the Property of QSG and the exercise of any rights and remedies of any Person against QSG until August 18, 2023, or such later date as the Court may order;
 - (e) entitled QSG to continue to utilize the central cash management system in place as described in the Affidavit of Don Rogers sworn July 24, 2023 (the “**Rogers Affidavit**”);
 - (f) allowed disbursement of any funds accruing in the Blocked Account to be disbursed on the consent of the Advisors, which disbursements, in the opinion of the Advisors, are critical to the uninterrupted, continued operations of the business of QSG, which include (i) payroll obligations; (ii) all HST liabilities accrued up to the date of the August 4th Order not to

exceed \$426,000; (iii) the reasonable fees of Gardiner Roberts LLP (“**Gardiner Roberts**”); (iv) additional retainers of \$25,000 for each of RSM and Goodmans LLP (“**Goodmans**”); and (v) the amounts from time to time owing to QSG’s installers and any other suppliers deemed critical to the uninterrupted, continued operations of the business of QSG, up to August 18, 2023;

- (g) authorized and empowered QSG to obtain and borrow under a credit facility from Waygar up to \$1.5 million (the “**Interim Financing**”), strictly for the purpose of financing the Debtors’ payroll obligations and the amounts from time to time owing to the Debtors’ installers during the Stay Period, or any other suppliers which all Advisors deem critical to the uninterrupted, continued operations of the business of QSG, which credit facility shall be on the terms and subject to the conditions set forth in the commitment letter between FLGI and Waygar in the form attached to the Rogers Affidavit;
 - (h) granted a first ranking charge against QSG’s Property in favour of Waygar for any borrowings against the Interim Financing; and
 - (i) sealed the Affidavit of Don Rogers sworn July 31, 2023, inclusive of the Confidential Exhibits “A” and “B” appended thereto, and the confidential appendices appended to the pre-filing report of RSM dated August 3, 2023 (the “**RSM Pre-Filing Report**”, pending court approval of a sale transaction or other arrangement in respect of QSG or further Order of the Court.
2. A copy of the August 4th Order is attached hereto as **Appendix “A”** and a copy of the RSM Pre-Filing Report is attached hereto as **Appendix “B”**.

Purpose of Report

3. The purpose of this supplemental report of RSM Canada Limited, in its capacity as the Proposed Monitor (the “**Supplemental RSM Pre-Filing Report**”), is to provide the Court with information pertaining to:

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- (a) the Proposed Monitor's understanding of discussions between Waygar and Ironbridge Equity Partners Management Limited, the proposed purchaser of QSG's assets ("**Ironbridge**" or the "**Proposed Purchaser**") and current status of same;
 - (b) the activities of the Advisors since the date of the August 4th Order;
 - (c) the receipts and disbursements ("**R&D**") of QSG during the Stay Period as compared to the cash flow forecast filed as Appendix B to the RSM Pre-Filing Report (the "**Cash Flow Forecast**");
 - (d) a brief commentary of the differences in approach between the FLGI cash flow (the "**FLGI Cash Flow**") and the Cash Flow Forecast; and
 - (e) the Proposed Monitor's conclusions and recommendations.

Terms of Reference

- 4. In preparing the RSM Supplemental Pre-Filing Report and making the comments herein, the Proposed Monitor has relied upon unaudited financial information, books and records and financial information prepared by the Applicants, discussions with management and the Applicants' corporate finance advisor, Alvarez & Marsal Canada Securities ULC (collectively, the "**Information**").
- 5. Certain of the information contained in the RSM Supplemental Pre-Filing Report may refer to, or is based on, the Information. Since the Information has been provided by other parties or was obtained from documents filed with the Court in this matter, the Monitor has relied on the Information and, to the extent possible, reviewed the Information for reasonableness. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards pursuant to the *Chartered Professional Accountants Canada Handbook* (the "**CPA Handbook**"). Accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information.

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6. Some of the information referred in the RSM Supplemental Pre-Filing Report consists of forecasts and projections. The Proposed Monitor has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the CPA Handbook.
 7. Future oriented financial information referred to in this Report was prepared based on the Applicants' estimates and assumptions about future events. Readers are cautioned that, since projections are based on future events and conditions that are not ascertainable, the actual results achieved will or may vary from the projections, even if the assumptions materialize, and these variations may be significant.
 8. Capitalized terms not otherwise defined herein are defined in the RSM Pre-Filing Report, the affidavit of John Pacione, Co-Chief Executive Officer, of the Applicants, affirmed on August 3, 2023, and/or the August 4th Order.
 9. Unless otherwise stated, all dollar amounts contained in the RSM Pre-Filing Report are expressed in Canadian dollars.
 10. As set out in the RSM Pre-Filing Report, if the Initial Order is granted by the Court and RSM is appointed Monitor in the CCAA proceedings, RSM intends to post copies of material documents relating to QSG's CCAA proceedings on its website at <http://www.rsmcanada.com/quality-sterling-group>.

II. DISCUSSIONS BETWEEN WAYGAR AND IRONBRIDGE

11. At the August 4, 2023, court hearing, the Court encouraged QSG, Ironbridge, Waygar and their respective counsel (together, the "**Parties**") to engage in discussions to ascertain whether a potential transaction for the purchase of QSG's business could be agreed upon.
12. The Proposed Monitor understands that, since August 4, the Parties, as well as FLGI, in its capacity as financial advisor to Waygar, have met on several occasions to discuss matters and attempt to come to a mutually agreeable potential transaction. The Proposed Monitor was not invited to attend any of these

meetings. Numerous emails with offers and counteroffers have been circulated amongst the Parties, which QSG's counsel has shared with the Proposed Monitor, and we understand that significant progress has been made with respect to reaching an agreement on the principal terms of a mutually agreeable transaction for the purchase of QSG's business. However, as at the time of finalizing this report, no firm deal, in principle or otherwise, has been agreed to by Waygar or Ironbridge. The Proposed Monitor understands that discussions amongst the Parties are still ongoing, and there is a strong possibility that a satisfactory arrangement can be reached which would provide greater certainty in respect of a going concern sale of QSG's business on a go forward basis, and a method of financing that business until such sale can close.

13. As set out in the RSM Pre-Filing Report, as part of a Credit Agreement Amendment and Accommodation Agreement dated February 14, 2023 between Waygar and QSG, QSG was required to retain Alvarez & Marsal Canada Securities ULC ("**A&M CF**") to, among other things, assist QSG in evaluating and pursuing a potential financing, restructuring or sales transaction. A copy of A&M CF's report (the "**A&M Report**") on the sales and investment solicitation process it conducted was attached as Appendix E to RSM's Pre-Filing Report. Attached hereto as **Appendix "C"** is A&M CF's addendum to the A&M Report, which sets out the dates and details of the meetings attended and correspondence exchanged by the Parties in attempting to finalize the terms and conditions of a mutually agreeable transaction.

III. ACTIVITIES OF THE ADVISORS

14. As set out previously herein, as per the August 4th Order, QSG and its directors, officers and employees, among others, were to fully cooperate with the Advisors to provide requested information and the Advisors were to approve only those obligations that, in the opinion of the Advisors, are critical to the uninterrupted, continued operations of the business of QSG.
15. FLGI and RSM have worked together, cooperatively with QSG management, to ensure that disbursements requested by QSG, including borrowings from the

Interim Financing, relating only to required ongoing supply of goods and services that, in the opinion of the Advisors, are critical to the uninterrupted, operations of the business of QSG have been funded. Details regarding QSG's receipts and disbursements compared to forecast for the period since the August 4th Order was issued are set out in the below section of this report.

IV. QSG R&D COMPARED TO THE CASH FLOW FORECAST

16. The Cash Flow Forecast covered the period from August 4, 2023 to November 3, 2023. A summary of QSG's cumulative receipts and disbursements compared to the Cash Flow Forecast for the Stay Period is set out in the below chart and a discussion of significant variances follows thereafter.

Quality Sterling Group
Statement of Receipts and Disbursements
For the Period August 4, 2023 to August 18, 2023
(in \$000's)

	August 4 to 18, 2023		Total	August 4 to 18, 2023	Variance
	Actual	Estimated		Forecast	
Receipts					
Accounts receivable collections	\$ 2,963	\$ 270	\$ 3,233	\$ 6,007	\$ (2,774)
Interim Financing Facility	349	1,151	1,500	-	1,500
Total receipts	\$ 3,312	\$ 1,421	\$ 4,733	\$ 6,007	\$ (1,274)
Disbursements					
Purchases of materials	\$ 714	\$ 325	\$ 1,039	\$ 2,645	\$ (1,605)
Payments to subcontractors	1,059	525	1,584	1,437	147
Payroll and benefits	538	-	538	521	18
Employee Commissions	-	-	-	39	(39)
Rent	-	-	-	-	-
Selling, general & admin.	105	85	190	228	(38)
Sales taxes	425	-	425	426	(1)
Professional fees	100	-	100	502	(402)
Financing expenses	-	-	-	-	-
Contingency	-	-	-	100	(100)
Total disbursements	\$ 2,942	\$ 935	\$ 3,877	\$ 5,897	\$ (2,021)
Net cash flow	\$ 370	\$ 486	\$ 856	\$ 109	\$ 747

17. QSG's total receipts and disbursements, including estimated receipts and disbursements for August 17 and 18, 2023, during the Stay Period were \$4.7 million and \$3.9 million, with the resulting net cash inflow being \$856,000; however, cash receipts include \$1.5 million from the interim financing facility provided by Waygar pursuant to the August 4th Order. Without the interim

financing provided by Waygar, QSG would have had a net cash outflow of \$644,000, resulting in an unfavourable variance from forecast of \$753,000.

18. Accounts receivable collections were \$2.8 million less than forecast and QSG management advises that this likely results from:
 - (a) customers becoming aware of the CCAA Proceedings and delaying the payment of their outstanding accounts; and
 - (b) customers holding payments for older amounts payable to QSG due to the inability for QSG to service current installations as a result of insufficient funds being available to purchase materials both before and after August 4, 2023 as well as customers reassigning work to competitors and pulling contracts due to QSG's inability to meet installation deadlines.
19. Materials purchases were \$1.6 million lower than forecast as a result of:
 - (a) QSG's inability to utilize for the purchase of materials any portion of the \$6.1 million of cash collections accumulated in the Blocked Accounts on the basis that this amount was swept on August 3, 2023 by Waygar; and
 - (b) funding for materials purchases being delayed during the week ended August 11, 2023 on the basis that the Advisors requested that QSG provide the underlying support to substantiate that payments were being made for post-August 4, 2023 obligations that were critical to the uninterrupted, continued operations of the business in accordance with the August 4th Order.
20. Payments to subcontractors were \$147,000 higher than forecast on the basis that subcontractors that had not submitted invoices for work previously performed submitted invoices for same, upon hearing of the issuance of the August 4th Order. These payments were determined to be critical by the Advisors as the ongoing and continued payments to subcontractors that perform installation work is key to the ongoing operation of QSG's business.
21. Professional costs were lower than forecast by \$402,000 as the retainers payable to RSM and Goodmans were limited to \$25,000 each in accordance with the

August 4th Order and the payment made to Gardiner Roberts LLP was only \$50,000.

22. The Proposed Monitor notes that the Cash Flow Forecast projects a net cash outflow of \$1 million during the week ending August 25, 2023. Unless further funding is provided by Waygar or Ironbridge or obtained from some other source, QSG will not be able to operate at the level contemplated in the Cash Flow Forecast on a go forward basis.

V. BASIS FOR FLGI CASH FLOW VS. THE CASH FLOW FORECAST

23. In reviewing the second supplementary pre-filing report of FLGI, as proposed monitor in the Waygar CCAA application, and comments therein regarding the FLGI Cash Flow and the Cash Flow Forecast, the Proposed Monitor notes the following differences in the approach taken by FLGI as opposed to QSG:

- (a) the FLGI Cash Flow contemplates that minimal cash will be required and used to pay for additional materials purchases, installation costs are presumed to be incurred based on the cooperation of customers and headcount will be significantly reduced as time passes. In the Pre-Filing Report, we characterized that as a wind-down of the business with reduced inventory and sales figures as well. To the contrary, the Cash Flow Forecast assumes that QSG will continue operations in the ordinary course, while utilizing available DIP funds from Ironbridge to fund operations. This is a fundamental difference in approach and results in many of the differences in forecasts and asset levels between the FLGI report and our Pre-Filing Report;
- (b) FLGI states that the Ironbridge DIP facility of \$3 million is insufficient to fund QSG's expected net cash outflow because the total amount contemplated to be needed in the Cash Flow Forecast is \$6.7 million. However, the Cash Flow Forecast covers the statutorily required 13-week period. It also assumes that, if the Ironbridge LOI was pursued, a transaction would close within a 6-week period and that Ironbridge would fund post-closing

operating costs of the business. As stated in the RSM Pre-Filing Report, as at the weeks ending September 15, 2023 (the end of week 6) and September 22, 2023 (the end of week 7), the borrowings under the DIP Facility were forecast to be \$948,000 and \$2.2 million, respectively, assuming only \$939,000 of funds in the Blocked Accounts are utilized by QSG, which is less than the maximum borrowings allowed under the DIP Facility. At the time the Cash Flow Forecast was prepared and the RSM Pre-Filing Report was finalized, it was unknown to either QSG or the Proposed Monitor that Waygar would sweep \$6.1 million from the Blocked Accounts on August 3, 2023, without notice to QSG;

- (c) FLGI states in its second supplementary pre-filing report that “The Condensed Sales Process will focus on a sale of the Respondents’ key asset, which consists of millions of dollars of business from existing contracts with the Builder Contracts.” This is indeed a significant assumption as it may be more difficult to maintain the value of these contracts with the business operating on a reduced basis as contemplated in the FLGI Cash Flow; and
- (d) The Proposed Monitor is of the view that the Waygar application is a “free fall” filing (using US terminology) where it is filing and hoping that additional realizations can be achieved by unidentified purchasers coming forward during the Condensed Sales Process. To the contrary, QSG’s filing is anchored in a deal that the contractors and suppliers will see as a hope of continuing the business. That simple issue is critical in enabling QSG to collect existing accounts receivable and achieve new sales, and it drives the difference in approach with respect to the forecast costs for materials purchases, installation costs and payroll costs because the potential purchaser of QSG’s business will want the business to continue into the foreseeable future.

VI. CONCLUSIONS AND RECOMMENDATIONS

24. The Proposed Monitor concludes that:

- (a) the Parties are continuing to negotiate in good faith in order to come to a holistic solution to the various issues facing the going concern sale of QSG's business and the method of financing same on a go forward basis;
- (b) QSG's disbursements during the Stay Period have and as contemplated in the Cash Flow Forecast will, on a go forward basis, exceed receipts. As such, unless some form of additional or supplementary financing is obtained, QSG may not be able to continue to operate; and
- (c) the underlying basis and assumptions for the Cash Flow Forecast and FLGI Cash Flow are vastly different and it is difficult to compare one to the other. While QSG cannot continue to incur ongoing cash shortfalls in order to operate at existing levels, the FLGI Cash Flow is predicated on customer cooperation which is unlikely to be forthcoming in the face of a business operating at reduced levels.

25. The Proposed Monitor recommends that, if the Parties remain close to an agreement on the terms of a sale and funding, that the Court grant a further Order very briefly extending the terms of the August 4th Order, in order to allow the Parties further time to finalize an agreement on the principal economic terms of such an agreement, at which time fulsome relief might be granted to permit the business to continue and be restructured.

All of which is respectfully submitted to this Court as of this 17th day of August, 2023.

RSM CANADA LIMITED

solely in its capacity as Proposed CCAA
Monitor of the Quality Sterling Group and
not in its personal or corporate capacity



Per: Arif Dhanani, CPA, CA, CIRP
Vice-President

APPENDIX D

Court File No. CV-23-00703292-00CL

Court File No. CV-23-00703933-00CL

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

THE HONOURABLE MR.) FRIDAY, THE 18TH
)
JUSTICE PENNY) DAY OF AUGUST, 2023
)

B E T W E E N:

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

Applicant

- and -

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

Respondents

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,
MALVERN CONTRACT INTERIORS LIMITED, WESTON HARDWOOD
DESIGN CENTRE INC., ONTARIO FLOORING LTD., TIMELINE
FLOORS INC., AND QUALITY COMMERCIAL CARPET CORPORATION
(the "**Respondents**" or the "**Debtors**")

ORDER

THIS APPLICATION, made by the Applicant, in its capacity as lender to and secured
creditor of the Respondents, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C.

1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the application materials delivered by the Applicant and the application materials delivered by the Respondents, both as respondents to this Application and as Applicants in respect of the Application commenced under Court File No. CV-23-00703933-00CL (the "**Debtor-Led Application**"), and on hearing the submissions of counsel for the Applicant, counsel for the Respondents, and such other parties listed on the Counsel Slip,

ADJOURNMENT

1. **THIS COURT ORDERS AND DECLARES** that both this application and the Debtor-Led Application originally returnable on August 4, 2023, and adjourned to August 18, 2023, be further adjourned until August 23, 2023 (the "**Hearing Date**"), without prejudice to the ability of any party to make submissions and take positions in respect of the substantive relief sought at the Hearing, or in respect of the relief sought in the application of the Applicant seeking to appoint a receiver over the Respondents, commenced under court file number CV-23-00703874-00CL.

2. **THIS COURT ORDERS** that the Order made herein on August 4, 2023, other than as amended hereby, be and is hereby extended from this date until the Hearing Date.

3. **THIS COURT ORDERS** that any disbursement from the funds that accrue in the Blocked Account (as that term is defined in the Affidavit of Don Rogers sworn July 24, 2023) shall be disbursed only on the consent of the Advisors, who shall approve only those obligations that, in the opinion of the Advisors, are critical to the uninterrupted, continued operations of the business of the Debtors. Otherwise, there shall be no further funds disbursed pending the Hearing Date.

GENERAL

4. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order.

5. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

A handwritten signature in blue ink, appearing to read "Peggy J.", is written over a solid horizontal line.

APPENDIX E

Court File No. CV-23-00703292-00CL

Court File No. CV-23-00703933-00CL

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

THE HONOURABLE MR.) WEDNESDAY, THE 23rd
JUSTICE PENNY)
) DAY OF AUGUST, 2023

B E T W E E N:

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

Applicant

- and -

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

Respondents

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,
MALVERN CONTRACT INTERIORS LIMITED, WESTON HARDWOOD
DESIGN CENTRE INC., ONTARIO FLOORING LTD., TIMELINE
FLOORS INC., AND QUALITY COMMERCIAL CARPET CORPORATION
(the "**Respondents**" or the "**Debtors**")

ORDER

THIS APPLICATION, made by the Applicant, in its capacity as lender to and secured
creditor of the Respondents, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C.

1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the application materials delivered by the Applicant and the application materials delivered by the Respondents, both as respondents to this Application and as Applicants in respect of the Application commenced under Court File No. CV-23-00703933-00CL (the "**Debtor-Led Application**"), and on hearing the submissions of counsel for the Applicant, counsel for the Respondents, and such other parties listed on the Counsel Slip,

ADJOURNMENT

1. **THIS COURT ORDERS AND DECLARES** that both this application and the Debtor-Led Application originally returnable on August 4, 2023, and adjourned to August 18, 2023, be further adjourned until August 25, 2023 (the "**Hearing Date**"), without prejudice to the ability of any party to make submissions and take positions in respect of the substantive relief sought at the Hearing, or in respect of the relief sought in the application of the Applicant seeking to appoint a receiver over the Respondents, commenced under court file number CV-23-00703874-00CL.

2. **THIS COURT ORDERS** that the Order made herein on August 4, 2023, and extended on August 18, 2023, other than as amended hereby, be and is hereby extended from this date until the Hearing Date.

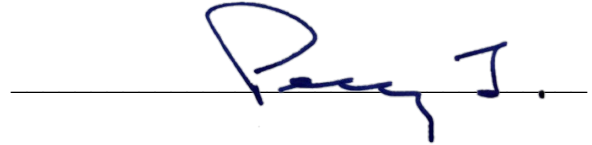
3. **THIS COURT ORDERS** that any disbursement from the funds that accrue in the Blocked Account (as that term is defined in the Affidavit of Don Rogers sworn July 24, 2023) shall be disbursed only on the consent of the Advisors, who shall approve only those obligations that, in the opinion of the Advisors, are critical to the uninterrupted, continued operations of the business of the Debtors. Otherwise, there shall be no further funds disbursed pending the Hearing Date.

GENERAL

4. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order.

5. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

53896679.1

A handwritten signature in blue ink, appearing to read "Paul J.", is written over a solid horizontal black line. The signature is stylized and cursive.

APPENDIX F

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**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 CANADA LTD. AND THE OTHER COMPANIES LISTED
IN SCHEDULE "A" HERETO**

(collectively, the "**Applicants**")

**SECOND SUPPLEMENTAL PRE-FILING REPORT TO THE COURT OF
RSM CANADA LIMITED, IN ITS CAPACITY AS PROPOSED MONITOR OF THE
APPLICANTS**

August 25, 2023

Table of Contents

I.	INTRODUCTION	1
	Purpose of Report	4
	Terms of Reference.....	5
II.	THE TRANSACTION	6
III.	IRONBRIDGE DIP FINANCING	8
IV.	COURT ORDERED CHARGES	11
	Administration Charge	11
	Directors' Charge	12
	DIP Lender's Charge	12
	Financial Advisor's Charge.....	13
	Lien Charge.....	13
V.	CONCLUSIONS AND RECOMMENDATIONS	14

Appendices

August 4th Order..... A

RSM Pre-Filing Report (without appendices) B

Supplemental RSM Pre-Filing Report C

August 18th Order..... D

August 23rd Order..... E

Ironbridge DIP Facility Agreement..... F

Comparative DIP Summary..... G

I. INTRODUCTION

1. On August 4, 2023, pursuant to competing *Companies' Creditors Arrangement Act* (“**CCAA**”) applications by Quality Rugs of Canada Limited, Timeline Floors Inc., Malvern Contract Interiors Limited, Ontario Flooring Ltd., Western Hardwood Design Centre and various related holding companies (collectively referred to herein as “**QSG**” or the “**Applicants**”) and its senior secured lender, Waygar Capital Inc. (“**Waygar**”), and an alternative application by Waygar for the appointment of a receiver (together “**Applications**”), the Court issued an order (the “**August 4th Order**”) under the CCAA, which, *inter alia*:
 - (a) adjourned the Applications, from August 4, 2023 to August 18, 2023 (the “**Stay Period**”);
 - (b) granted a stay of proceedings against commencement or continuation of any Proceedings against QSG or affecting the Business or the Property of QSG and the exercise of any rights and remedies of any Person against QSG until August 18, 2023, or such later date as the Court may order;
 - (c) entitled QSG to continue to utilize the central cash management system in place as described in the Affidavit of Don Rogers sworn July 24, 2023 (the “**Rogers Affidavit**”);
 - (d) allowed disbursement of any funds accruing in the Blocked Account to be disbursed on the consent of Fuller Landau Group Inc. (“**FLGI**”) and RSM Canada Limited (“**RSM**” and together with FLGI, the “**Advisors**”), which disbursements, in the opinion of the Advisors, are critical to the uninterrupted, continued operations of the business of QSG, which include (i) payroll obligations; (ii) all HST liabilities accrued up to the date of the August 4th Order not to exceed \$426,000; (iii) the reasonable fees of Gardiner Roberts LLP; (iv) additional retainers of \$25,000 for each of RSM and Goodmans LLP (“**Goodmans**”); and (v) the amounts from time to time owing to QSG’s installers and any other suppliers deemed critical to the

uninterrupted, continued operations of the business of QSG, up to August 18, 2023;

- (e) authorized and empowered QSG to obtain and borrow under a credit facility from Waygar up to \$1.5 million (the “**Waygar Interim Facility**”), strictly for the purpose of financing the Debtors’ payroll obligations and the amounts from time to time owing to the Debtors’ installers during the Stay Period, or any other suppliers which all Advisors deem critical to the uninterrupted, continued operations of the business of QSG, which credit facility shall be on the terms and subject to the conditions set forth in the commitment letter between FLGI and Waygar in the form attached to the Rogers Affidavit;
 - (f) granted a first ranking charge against QSG’s Property in favour of Waygar for any borrowings against the Waygar Interim Facility; and
 - (g) sealed the Affidavit of Don Rogers sworn July 31, 2023, inclusive of the Confidential Exhibits “A” and “B” appended thereto, and the confidential appendices appended to the pre-filing report of RSM dated August 3, 2023 (the “**RSM Pre-Filing Report**”), pending court approval of a sale transaction or other arrangement in respect of QSG or further Order of the Court.
2. A copy of the August 4th Order is attached hereto as **Appendix “A”** and a copy of the RSM Pre-Filing Report, without appendices, is attached hereto as **Appendix “B”**.
 3. On August 17, 2023, Goodmans served RSM’s supplemental pre-filing report dated August 17, 2023 (the “**RSM Supplemental Pre-Filing Report**”). A copy of the RSM Supplemental Pre-Filing Report, without appendices, is attached hereto as **Appendix “C”**
 4. On August 18, 2023, the Court issued an order (the “**August 18th Order**”), which *inter alia*:
 - (a) further adjourned the Applications to August 23, 2023 (the “**Hearing Date**”);
 - (b) extended the Stay Period until the Hearing Date; and

-
- (c) ordered that any disbursement from the funds that accrue in the Blocked Account shall be disbursed only on the consent of the Advisors, who shall approve only those obligations that, in the opinion of the Advisors, are critical to the uninterrupted, continued operations of the business of the Debtors. Otherwise, there shall be no further funds disbursed pending the Hearing Date.
5. A copy of the August 18th Order is attached hereto as **Appendix “D”**.
6. On August 23, 2023, at the request of both the Applicants and Waygar, the Court issued an order (the **“August 23rd Order”**), which further extended the Stay Period to August 25, 2023, on the same principal terms as the August 18th Order. A copy of the August 23rd Order is attached hereto as **Appendix “E”**.
7. RSM has been advised that QSG, Waygar and Ironbridge Equity Partners Management Limited (**“Ironbridge”**) are in agreement on the principal economic terms and conditions of a sale transaction and of a proposed interim financing of the QSG business pending the closing thereof. On that basis, the Applicants are seeking the Court’s approval of an Initial Order which, *inter alia*, would:
- (a) declare that the Applicants are parties to which the CCAA applies;
 - (b) appoint RSM as monitor (once appointed in such capacity, the **“Monitor”**);
 - (c) grant a further Stay of Proceedings to September 5, 2023;
 - (d) grant the Administration Charge, Directors’ Charge, DIP Lender’s Charge, Financial Advisor’s Charge and the Lien Charge (each as defined below);
and
 - (e) approve the execution by QSG of a debtor-in-possession (**“DIP”**) facility loan agreement (the **“Ironbridge DIP Facility Agreement”**) with Ironbridge, pursuant to which Ironbridge (in such capacity, the **“DIP Lender”**) would make available funding of up to \$5 million during the initial 10-day Stay of Proceedings.

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8. If the Initial Order is granted, the Applicants intend to return to Court on September 5, 2023 (the “**Comeback Hearing**”) to seek the Court’s approval of:
- (a) an Amended and Restated Initial Order (“**ARIO**”) which, *inter alia*, would:
 - (i) add or expand certain provisions which are customary in a fulsome ARIO, but not in an Initial Order pending a Comeback Hearing;
 - (ii) extend the Stay of Proceedings to a date to be determined; and
 - (iii) declare that QSG meets the criteria established by the Wage Earner Protection Program Act and the Wage Earner Protection Program Regulations.

Purpose of Report

9. The purpose of this second supplemental report of RSM Canada Limited, in its capacity as the Proposed Monitor (the “**Second RSM Supplemental Pre-Filing Report**”), is to provide the Court with information pertaining to:
- (a) a revised letter of intent signed by the Applicants and the Proposed Purchaser on August 24, 2023 (the “**Revised LOI**”), which Waygar is supportive of, and certain principal term and conditions thereof. It should be noted that the economic terms of the Revised LOI are redacted herein and that a Confidential Exhibit shall be provided to the Court, which the Proposed Monitor requests be sealed pending the closing of such transaction;
 - (b) the terms of the Ironbridge DIP Term Sheet (defined below);
 - (c) the relief sought by the Applicants in connection with the Initial Order, including the Administration Charge, Directors’ Charge, DIP Lender’s Charge, Financial Advisor’s Charge and the Lien Charge; and
 - (d) the Proposed Monitor’s conclusions and recommendations.

Terms of Reference

10. In preparing the Second RSM Supplemental Pre-Filing Report and making the comments herein, the Proposed Monitor has relied upon unaudited financial information, books and records and financial information prepared by the Applicants, discussions with management and the Applicants' corporate finance advisor, Alvarez & Marsal Canada Securities ULC (collectively, the "**Information**").
11. Certain of the information contained in the Second RSM Supplemental Pre-Filing Report may refer to, or is based on, the Information. Since the Information has been provided by other parties or was obtained from documents filed with the Court in this matter, the Monitor has relied on the Information and, to the extent possible, reviewed the Information for reasonableness. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards pursuant to the *Chartered Professional Accountants Canada Handbook* (the "**CPA Handbook**"). Accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information.
12. Some of the information referred in the Second RSM Supplemental Pre-Filing Report consists of forecasts and projections. The Proposed Monitor has not conducted an examination or review of any financial forecast and projections in a manner that would comply with the procedures described in the CPA Handbook.
13. Future oriented financial information referred to in the Second RSM Supplemental Pre-Filing Report was prepared based on the Applicants' estimates and assumptions about future events. Readers are cautioned that, since projections are based on future events and conditions that are not ascertainable, the actual results achieved will or may vary from the projections, even if the assumptions materialize, and these variations may be significant.
14. Capitalized terms not otherwise defined herein are defined in the RSM Pre-Filing Report; the Supplemental RSM Pre-Filing Report; the affidavit of John Pacione, Co-Chief Executive Officer of the Applicants, affirmed on August 3, 2023; the

supplemental affidavit of John A. Pacione affirmed August 17, 2023, the August 4th Order and/or the August 18th Order.

15. Unless otherwise stated, all dollar amounts contained in the Second RSM Pre-Filing Report are expressed in Canadian dollars.
16. If the Initial Order is granted by the Court and RSM is appointed Monitor in the CCAA proceedings, RSM intends to post copies of material documents relating to QSG's CCAA proceedings on its website at <http://www.rsmcanada.com/quality-sterling-group>.

II. THE TRANSACTION

17. Ironbridge submitted the Revised LOI. The Proposed Monitor wishes to provide to the Court an unredacted version of the Revised LOI, signed by QSG and the Purchaser, to which Waygar has consented, on a confidential basis after the hearing on August 25, 2023. The proposed Monitor will ask for the Court to seal such document, as and when received, pending further order of the Court. A summary of the salient terms and conditions of the contemplated Transaction that forms part of the Revised LOI is set out below and a discussion of the Ironbridge DIP Term Sheet (which is referred to as the "Interim Financing" in the Revised LOI) is discussed in the section of this report that follows.

[remainder of page left blank intentionally]

Quality Sterling Group Summary of Revised LOI Terms and Conditions	
Purchaser	- an entity controlled by Ironbridge Equity Partners Management Limited
Purchased Assets	- include, but not limited to, real and personal property, equipment, inventory (including the unpaid and uninstalled inventory supplied by Mohawk Carpet Distribution, Inc.), vehicles, accounts receivable, contracts, licences, intellectual property and books and records identified by Ironbridge - Purchased Assets to be sold on an "as is, where is" basis
Assumed Liabilities and Construction Act Trusts	- assumption of (i) all HST amounts collected by the Vendors and not remitted to the applicable governmental authorities, (ii) all unpaid and accrued wages and vacation pay owing to QSG's employees, in each case, as of the Closing Date; (iii) the Ironbridge DIP Financing (defined below); (iv) the Mohawk PMSI; and (v) certain additional liabilities of QSG in connection with the Purchased Assets identified by the
Purchase Price	- to include a cash component payable to the Monitor on the Closing Date (defined below) - \$500,000 payable to the Monitor to be held in trust and used to pay amounts owing to Alvarez & Marsal (the " A&M Payment ") - the balance of the Purchase Price (the " Deferred Purchase Price ") shall be payable following the Closing Date based on a sharing of accounts receivable collections of the Purchaser as and when received by the Purchaser (including (i) accounts receivables purchased by the Purchaser from the Vendors and ; (ii) accounts receivables generated by the Purchaser following the Closing Date; and (iii) the sale or assignment of (i) or (ii)) (" A/R Collections "), once A/R Collections following the Closing Date exceed a specified amount (the " Specified Amount "), whereby \$0.50 of each dollar of A/R Collections in excess of the Specified Amount will be for the account of the Vendors (to be paid to the Monitor for the benefit of Waygar subject to affirmation of the validity and enforceability of its security) and \$0.50 of each dollar of A/R Collections in excess of the Specified Amount will be for the account of the Purchaser. The \$0.50 of each dollar of A/R Collections for the account of the Purchaser shall remain in the business of the Purchaser until the Deferred Purchase Price has been paid in full - Any portion of the Deferred Purchase Price that remains unpaid on the six month anniversary of the Closing Date due to insufficient A/R Collections shall be due and payable by the Purchaser on such six month anniversary (and shall be paid to Waygar, subject to affirmation of the validity and enforceability of its security).
Closing	- QSG and Purchaser to seek Approval and Vesting Order within 30 days after LOI is signed - Transaction to close on the 10th calendar day after the date on which all of the conditions precedent to closing are satisfied. Acquisition Agreement to provide 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 QSG and arrange for the continuation of benefits and other employment matters
Key Conditions / Conditions Precedent to Closing	- negotiation and execution of a definitive acquisition agreement, which agreement and any transition services agreement to be approved by the Court - negotiation and execution of documentation in respect of the Interim Financing (as described below) between the Interim Lender (as defined below) and the Vendors - QSG to obtain an Approval and Vesting Order - Purchased Assets to be sold free and clear of any liens and encumbrances, except the Mohawk PMSI and the Priority Payables. - QSG to obtain any necessary government approvals including under the <i>Competition Act</i> - QSG to 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 of QSG 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 Purchaser. - Deferred Purchase Price to be guaranteed by Ironbridge Equity Partners IV, LP and Ironbridge Equity Partners (International) IV, LP in a form of a guarantee guaranteeing the obligations to Waygar as reflected in this LOI and on customary commercial terms - Purchaser will be restricted from making any distributions to its shareholders until the Deferred Purchase Price is paid to QSG
Other	- QSG may pay the fees and expenses of its professional advisors, Gardiner Roberts LLP, and of the proposed monitor, RSM Canada Limited, and its counsel, Goodmans LLP, in the normal course until closing of the Transaction in accordance with the CCAA cashflows. Other than the A&M Payment, Ironbridge and the Purchaser will have no responsibility or liability for any amounts owing to QSG's professional advisors - Other than the A&M Payment, none of QSG, Ironbridge or the Purchaser will be responsible or liable for any amounts owing to any professional advisors engaged by Waygar Capital Inc., as agent for Ninepoint Canadian Senior Debt Master Fund L.P. ("Waygar"), the primary lender to the Vendors. Other than the A&M Payment, Waygar will be responsible for and pay all such amounts, including all fees and other amounts owing to Alvarez & Marsal, Fuller Landau and Dentons

III. IRONBRIDGE DIP FINANCING

18. The Revised LOI includes a section relating to the provision of the Ironbridge DIP Facility by the Purchaser or an entity related to Ironbridge.
19. In order to provide the liquidity needed to fund the operations of QSG during the CCAA Proceedings, the Applicants require the approval of interim or DIP financing. Ironbridge has offered to provide such interim financing in the form of a non-revolving DIP credit facility (the “**Ironbridge DIP Facility**”). The proposed Initial Order also provides for the creation of a court-ordered priority charge to secure advances made under the Ironbridge DIP Facility (the “**DIP Lender’s Charge**”) to match the maximum allowable borrowing amount available up to the Comeback Hearing.
20. Ironbridge and the Applicants have entered into a term sheet dated August 24, 2023 (the “**Ironbridge DIP Term Sheet**”) in respect of the Ironbridge DIP Facility, under which Ironbridge has agreed to provide a non-revolving DIP credit facility of up to \$5 million immediately, which can increase to a maximum of \$7 million if the Acquisition Agreement is approved by this Court. The Ironbridge DIP Facility would be used to repay the Waygar interim financing under the August 4 Order and to fund QSG’s day-to-day operations, including legal fees and other professional costs, during the CCAA Proceedings.
21. A copy of the Ironbridge DIP Term Sheet is attached hereto as **Appendix “F.”** All capitalized terms used in this section and not otherwise defined have the meaning provided to them in the Ironbridge DIP Facility Agreement.
22. A summary of the key terms and conditions of the contemplated Ironbridge DIP Facility is set out below.

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Quality Sterling Group Summary of Ironbridge DIP Facility Agreement	
Principal loan amount	\$5,000,000
Additional loan amount	\$2,000,000, only available after court approval of an Asset Purchase Agreement on terms and conditions satisfactory to the DIP Lenders.
Interest	12%, shall accrue and be calculated daily and payable in cash, monthly in arrears on the last Business Day of each month. The DIP Lenders may, in their sole discretion, elect to receive the amount of any interest payment (a) entirely in cash, (b) entirely by adding the amount of such accrued and unpaid interest to the principal amount outstanding under the DIP Facility (interest so capitalized, "PIK Interest"), or (c) a combination of cash and PIK Interest.
Drawdowns	Require a written notice to be delivered to the DIP Lenders, four Business Days prior to the requested date of the Advance, or such shorter period as may be agreed by the DIP Lenders in advance (each, an "Advance Notice"), which has been approved by the Monitor and executed by an officer of the Borrower.
Approved Cash Flow	Detailed cash flow to be appended to Ironbridge DIP Facility Agreement.
Use of funds	In accordance with Approved Cash Flow to fund: (i) working capital; (ii) Priority Payables; (iii) Waygar Obligations; (iv) professional fees; (v) interest; and (iv) expenses payable under the DIP Facility.
Maturity	Earlier of: (a) conversion of the CCAA Proceeding into a proceeding under the Bankruptcy and Insolvency Act (Canada); (b) an Event of Default in respect of which the DIP Lenders have notified the Obligors pursuant to Section 31 that they have elected to accelerate all amounts owing; or (c) the date that is eight weeks after the date of the Initial Order, which date may be extended by the DIP Lenders for up to an additional two weeks provided that the DIP Lenders agree to such extension in writing.
Assumption of DIP Obligations	If the transaction contemplated by the Asset Purchase Agreement closes on or prior to the Maturity Date, the DIP Obligations shall be assumed by the Purchaser on such terms and conditions as the DIP Lenders and the Purchaser may agree.
Fees and expenses	Borrower to pay all costs and expenses of the DIP Lenders for all due diligence and all fees, expenses and disbursements of outside counsel, and any financial consultant in connection with the preparation, negotiation, approval and interpretation of the DIP Credit Documents and administration of the DIP Facility, including any costs and expenses incurred by the DIP Lenders in connection with the enforcement of any of the rights and remedies available hereunder or under the DIP Security.
Key conditions precedent to initial advance	Issuance of the Initial Order; Court approval of the Ironbridge DIP Facility Agreement; granting of the DIP Charge and Priority of same; and the DIP Lenders are satisfied that no person (including Waygar) has cash dominion over any bank accounts or securities accounts of any Obligor and that all Blocked Account Agreements pursuant to which any Obligor is party or otherwise bound have been terminated.
Certain key events of default	Any Court order is issued, dismissed, stayed, reversed, vacated, amended or restated and such issuance, dismissal, stay, reversal, vacating, amendment or restatement adversely affects or would reasonably be expected to adversely affect the interest of the DIP Lenders in a material manner, unless the DIP Lenders have given their prior written consent thereto.
Security and DIP Lender's Charge	All of the obligations of the Obligors under or in connection with the DIP Facility, this Agreement and the other DIP Credit Documents, including without limitation, all principal, interest, fees and amounts owing in respect of expenses of the DIP Lenders (collectively, the " DIP Obligations "), shall be secured by a Court-ordered charge on the Collateral in favour of the DIP Lenders (the " DIP Charge "). Collateral means all now-owned and hereafter-acquired assets and property of the Obligors, real and personal, tangible or intangible and all proceeds therefrom, including the Borrower's Account and all assets used in the Business
Priority of the DIP Lender's Charge	It is proposed that the DIP Lender's Charge will rank subordinate to the Administration Charge and the Directors' Charge (as described further below).

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23. Appended to the Ironbridge DIP Term Sheet is an updated 13-week cash flow (the “**Cash Flow Forecast**”) prepared by QSG for the period August 24, 2023 to November 24, 2023 (the “**Forecast Period**”). The estimates and assumptions in the Cash Flow Forecast are consistent with those in the initial cash flow forecast filed by QSG on August 3, 2023. The Monitor notes that forecast accounts receivable collections and disbursements total \$30.9 million and \$36.4 million, respectively, and the net cash outflow is \$5.5 million during the Forecast Period.
 24. The Ironbridge DIP Term Sheet sets out that the maximum available DIP funding until an asset purchase and sale agreement is signed is \$5 million. The Cash Flow Forecast assumes that an asset purchase and sale agreement is signed by September 27, 2023, and the forecast balance of the Ironbridge DIP Facility at that time is \$4.5 million. At no time prior to September 27, 2023 is the forecast required amount of DIP funding greater than \$4.5 million. Thereafter, the Cash Flow Forecast assumes that, pursuant to the Ironbridge DIP Term Sheet, an additional \$2 million of DIP funding is available under the Ironbridge DIP Facility. The maximum amount of DIP funding required is \$7 million and this is forecast to be the Ironbridge DIP Facility balance during the week ending November 24, 2023.
 25. The Proposed Monitor considers the Cash Flow Forecast and the estimates and assumptions therein to be reasonable.
 26. The Proposed Monitor has reviewed the terms of various DIP funding facilities granted in insolvency and restructuring proceedings of comparable size for the period July 2022 to June 2023 and prepared a summary in respect of the same (“**Comparative DIP Summary**”), a copy of which is attached hereto as **Appendix “G”**.
 27. The Monitor notes that the interest rate of the proposed Ironbridge DIP Facility is below the average range observed and summarized in the Comparative DIP Summary. The Proposed Monitor considers the proposed Ironbridge Facility to be reasonable.

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28. The Proposed Monitor further notes that QSG did not solicit third parties to provide DIP financing due to, among other things, the limited time period for financial due diligence, and the intention of Ironbridge to provide DIP financing at commercially reasonable terms on an expedited basis. In addition, given the feedback from third parties solicited during QSG's refinancing efforts, QSG and the Proposed Monitor were not confident that QSG could secure such financing from a third party. In light of these circumstances, and subject to reviewing any additional terms in the finalized Ironbridge Facility Agreement, the Proposed Monitor supports the proposed DIP Facility made available under the Ironbridge Facility Agreement.

IV. COURT ORDERED CHARGES

29. The proposed Initial Order sets out five potential charges over the property of the Applicants. Details of same are described below. The charges, as contemplated in the proposed Initial Order are described below in order of priority.

Administration Charge

30. The Proposed Initial Order provides for a shared charge (the "**Administration Charge**") in the maximum amount of \$750,000 to secure the fees and disbursements incurred in connection with services rendered by counsel to the Applicants, the Proposed Monitor, counsel to the Proposed Monitor and the Financial Advisor (in respect of its monthly fees), for the period from August 18, 2023 thereafter. An administration charge is a customary provision in an Initial Order in a CCAA proceeding, required by the professionals engaged to assist a debtor entity.
31. The amount of the Administration Charge is limited to an amount necessary to ensure the beneficiaries of the Administration Charge have adequate protection to the date of the Comeback Hearing.
32. The Administration Charge is intended to rank ahead of all other Charges created in the Initial Order, as well as all other security interests against the Applicants, once creditors with security interests are served.

-
33. The Proposed Monitor is of the view that the Administration Charge and its proposed ranking are reasonable and appropriate in the circumstances.

Directors' Charge

34. The proposed Initial Order provides for a charge on the Property in the amount of \$600,000 (the "**Directors' Charge**") to protect the directors and officers against obligations and liabilities they may incur as directors and officers of the Applicants after the commencement of the CCAA proceedings.
35. The Directors' Charge is proposed to rank behind the Administration Charge, but ahead of all other Court ordered charges and over all security interests against the Property once creditors with security interests are served.
36. The Proposed Monitor has reviewed the basis of the calculation of the Directors' Charge and is of the view that the Directors' Charge and its proposed ranking are reasonable and appropriate in the circumstances.

DIP Lender's Charge

37. The Initial Order will provide for a DIP Lender's Charge as security for outstanding advances made under the Ironbridge DIP Financing provided that the borrowings shall not exceed \$5 million unless permitted by further order of this Court.
38. However, if the purchase and sale transaction with Ironbridge closes with the approval of this Court, the Ironbridge DIP Financing shall not be repayable and the DIP Lender's Charge shall not be relied upon or enforced.
39. The proposed DIP Lender's Charge will rank subordinate to the Administration Charge and the Directors' Charge. The Proposed Monitor is of the view that the proposed DIP Lender's Charge represents necessary financing which affords the Applicants the opportunity to move towards the potential sale of its business, and it does not appear that there will be material financial prejudice to other QSG stakeholders as a result of this financing.

Financial Advisor's Charge

40. QSG seeks an order granting a charge to secure any success fee to which Alvarez & Marsal Canada Securities ULC ("**A&M CF**") may be entitled to under its engagement letter, which charge (the "**Financial Advisor's Charge**") shall be limited the amount of \$950,000.
41. 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).
42. The A&M CF success fee, which is tied to the closing proceeds of the sale of QSG's business, is at the current market rate for such services.
43. The proposed Financial Advisor's Charge to a maximum of \$950,000 will rank subordinate to the Administration Charge, the Directors' Charge and the DIP Lender's Charge.

Lien Charge

44. The proposed Initial Order provides for a Lien Charge as security for legitimate construction lien type claims, and a process for the Monitor to review and revise the quantum claimed (with rights for lien claimants to appeal), in order to extend to such claimants protections they might otherwise be stayed from exercising because of the Initial Order.
45. The Lien Charge is proposed to rank behind the Administration Charge, Directors' Charge, DIP Lender's Charge and Financial Advisor's Charge. The Proposed Monitor is of the view that the Lien Charge and its proposed ranking are reasonable and appropriate in the circumstances.
46. The Proposed Monitor is of the view that the priority of the proposed charges is reasonable in the circumstances and supports the relief sought by the Applicants in this regard.

V. CONCLUSIONS AND RECOMMENDATIONS

47. Based on the foregoing, if the Court is satisfied that the Applicants are Companies to which the CCAA applies, the Proposed Monitor is of the view that the relief requested by the Applicants is both appropriate and reasonable.
48. Considering QSG's liquidity constraints and the need to maintain stable business operations and customer confidence to support a successful conclusion to the sale to the Purchaser, the relief requested is necessary to allow QSG the time needed to facilitate the contemplated sale of its business.
49. The terms and conditions of the Ironbridge DIP Facility and Ironbridge DIP Term Sheet are reasonable and this financing is urgently needed by QSG.
50. The Proposed Monitor supports the Applicants' application for CCAA protection and respectively recommends that the Court grant the relief sought in the Initial Order.

All of which is respectfully submitted to this Court as of this 25th day of August, 2023.

RSM CANADA LIMITED

solely in its capacity as Proposed CCAA
Monitor of the Quality Sterling Group and
not in its personal or corporate capacity



Per: Arif Dhanani, CPA, CA, CIRP
Vice-President

APPENDIX G

Court File No. CV-23-00703933-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE) FRIDAY, THE 25TH
MR JUSTICE PENNY) DAY OF AUGUST, 2023

**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 OTHER COMPANIES LISTED IN
SCHEDULE "A" HERETO**

(collectively, the "**Applicants**")

INITIAL ORDER

THIS APPLICATION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36*, as amended (the "CCAA"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Application Record of the Applicants and the Supplementary Application Record of the Applicants, including the affidavit of John Pacione sworn August 3, 2023 and the Exhibits thereto (the "Pacione Affidavit"), the supplemental affidavit of John Pacione sworn August 17, 2023, the second supplemental affidavit of John Pacione sworn August 22, 2023, the Application Record and the Supplementary Application Record filed by Waygar Capital Inc. ("Waygar"), including the affidavit of Don Rogers sworn July 24, 2023, the

supplementary affidavit of Don Rogers sworn August 3, 2023, the pre-filing report of Fuller Landau Group Inc., dated July 25, 2023, the supplement to the pre-filing report of Fuller Landau Group Inc., dated August 3, 2023, the second supplement to the pre-filing report of the Fuller Landau Group Inc., dated August 16, 2023, the pre-filing report of RSM Canada Limited, dated August 3, 2023, the supplemental pre-filing report of RSM Canada Limited dated August 17, 2023, the second supplemental pre-filing report of RSM Canada Limited dated August 25, 2023 and the consent of RSM Canada Limited to act as the Monitor, and on being advised that the secured creditors who are likely to be affected by the charges created herein were given notice, and on hearing the submissions of counsel for the Applicants, counsel for Waygar, counsel for Ironbridge Equity Partners (“Ironbridge”), counsel for Mohawk Carpet Distribution, Inc. (“Mohawk”), and counsel for RSM Canada Limited, no other parties having been served or appearing,

SERVICE

1. THIS COURT ORDERS that the time for service of the Applicants’ Notice of Application and the Application Record and the Supplementary Application Record is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. THIS COURT ORDERS AND DECLARES that the Applicants are companies to which the CCAA applies.

PLAN OF ARRANGEMENT

3. [intentionally deleted].

POSSESSION OF PROPERTY AND OPERATIONS

4. THIS COURT ORDERS that the Applicants shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property"). Subject to further Order of

this Court, the Applicants shall continue to carry on business in a manner consistent with the preservation of their business (the "Business") and Property. The Applicants are authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "Assistants") currently retained or employed by them, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. THIS COURT ORDERS that the Applicants shall be entitled to utilize the cash management system currently in place as described in the Pacione Affidavit or if agreed to between the Applicants, Waygar and Ironbridge, provided that Waygar's approval rights shall terminate upon the closing of the transaction contemplated by the Asset Purchase Agreement, to replace it with another substantially similar cash management system (the "Cash Management System") and that any present or future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Applicants of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter defined) other than the Applicants, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as the provider of the Cash Management System, an unaffected creditor under any Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

5A. THIS COURT ORDERS that, notwithstanding paragraph 5 hereof or the provision of any documents under which the Cash Management System operates, any disbursement of funds which may have been deposited into or accrued in the Blocked Account (as defined in the Affidavit of Don Rogers sworn July 24, 2023) shall be made only on the consent of the Monitor (as herein defined), and without the need for the consent of Waygar or its advisors, provided that the Monitor shall only approve the disbursement if the Monitor is satisfied, acting reasonably, that such disbursement is necessary to comply with any payment contemplated to be made under

this Order, including payments for suppliers of goods and services to the Applicants in the ordinary course of business and consistent with the Cash Flow Projections.

6. THIS COURT ORDERS that the Applicants shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

(a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements; and

(b) the fees and disbursements of any Assistants retained or employed by the Applicants in respect of these proceedings, at their standard rates and charges.

7. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the Applicants shall be entitled but not required to pay all reasonable expenses incurred by the Applicants in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

(a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and

(b) payment for goods or services actually supplied to the Applicants following the date of this Order.

8. THIS COURT ORDERS that the Applicants shall remit, in accordance with legal requirements, or pay:

(a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i)

employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;

(b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and

(c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicant.

9. THIS COURT ORDERS that until a real property lease is disclaimed or resiliated in accordance with the CCAA, the Applicants shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicants and the landlord from time to time ("Rent"), for the period commencing from and including the date of this Order, twice-monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.

10. THIS COURT ORDERS that, except as specifically permitted herein, the Applicants are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicants to any of its creditors as of August 4th, 2023; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

RESTRUCTURING

11. THIS COURT ORDERS that the Applicants shall, subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the Definitive Documents and the DIP Term Sheet (each as hereinafter defined), have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations, and to dispose of redundant or non-material assets not exceeding \$100,000 in any one transaction or \$250,000 in the aggregate;
- (b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and
- (c) pursue all avenues of refinancing of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing,

all of the foregoing to permit the Applicants to proceed with an orderly restructuring of the Business (the "Restructuring").

12. THIS COURT ORDERS that the Applicants shall provide each of the relevant landlords with notice of the Applicants' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicants' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Applicants, or by further Order of this Court upon application by the Applicant on at least two (2) days notice to such landlord and any such secured creditors. If the Applicant disclaims or resiliates the lease governing such leased premises in accordance with Section 32 of the CCAA, it shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer or resiliation of the lease shall be without prejudice to the Applicants' claim to the fixtures in dispute.

13. THIS COURT ORDERS that if a notice of disclaimer or resiliation is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the disclaimer or resiliation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicants and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer or resiliation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicants in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY

14. THIS COURT ORDERS that until and including September 5, 2023, or such later date as this Court may order (the "Stay Period"), no proceeding or enforcement process in any court or tribunal (each, a "Proceeding") shall be commenced or continued against or in respect of the Applicants, the entities named in Schedule "A" hereto (the "Protected Parties"), the Monitor, the Financial Advisor (as hereinafter defined), or affecting the Business or the Property, except with the written consent of the Applicants and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicants or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

15. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicants, the Protected Parties, the Monitor, or the Financial Advisor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicants and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are

permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

16. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicants or the Protected Parties, except with the written consent of the Applicants and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

17. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with the Applicants or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, the Cash Management System or other banking services, payroll services, insurance, transportation services, utility or other services to the Business or the Applicants, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicants, and that the Applicants shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicants in accordance with normal payment practices of the Applicants or such other practices as may be agreed upon by the supplier or service provider and each of the Applicants and the Monitor, or as may be ordered by this Court.

TREATMENT OF LIEN CLAIMS

18. THIS COURT ORDERS that, without limiting the generality of paragraphs 14 to 17 hereof, the rights of any person who has supplied services and/or materials to the Applicants to preserve and perfect a lien under the *Construction Act* (Ontario) or any applicable provincial equivalent (the "Provincial Lien Legislation") in respect of a project or improvement to which one of the Applicants is a contracting party (the "Lien Claims") be and are hereby stayed and any

person seeking to preserve, perfect or otherwise enforce such a claim shall be required to comply with the process and seek the rights and remedies set out in paragraphs 18 to 21 hereof subject to further Order of the Court.

19. THIS COURT ORDERS that any person who wishes to assert a Lien Claim (a "Lien Claimant") shall serve a notice of such Lien Claim setting out the amount and particulars thereof (including without limitation the improvement in question) to (a) the Monitor at arif.dhanani@rsmcanada.com, with a copy Goodmans LLP, counsel to the Monitor at: jlatham@goodmans.ca, and (b) the Applicants, care of cbesant@grllp.com, in each case within the timeframes prescribed by the applicable Provincial Lien Legislation (a "Lien Notice") or such other time frame as may be ordered by the Court. Upon delivering such Notices of Lien, the Lien Claims will be considered preserved and perfected and no further steps need be taken by the Lien Claimant.

20. THIS COURT ORDERS that, upon serving a Lien Notice, the Lien Claimant shall be entitled to a charge over any Property of the Applicants relating to the project or improvement which is the subject of such Lien Claim, equivalent to the value and in accordance with the priority that the Lien Claimant would otherwise be entitled to as claim a lien under the applicable Provincial Lien Legislation (the "Lien Charge"), and shall rank in priority in accordance with the priority afforded to such Charge at law.

21. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA and elsewhere in this Order, is hereby authorized and empowered to review the Lien Notices and approve reduce or disallow the Lien Claims set out therein, or refer such matter for determination by the Court, on notice to the applicable Lien Claimant. Any such Lien Claimant shall have 10 days to give notice to the Monitor and the Applicants that it intends seek a review by the Court of the decision of the Monitor on a motion before a judge of this Court.

22. THIS COURT ORDERS that nothing in paragraphs 18 to 21 hereof shall be construed as limiting or prejudicing the rights of the Monitor, the Applicants or any other interested party

from challenging: (a) the validity or timeliness of a Lien Notice; (b) the validity or quantum of a Lien Claim under the applicable Provincial Lien Legislation, except for failure to preserve a lien by registration; (c) a Lien Claimant's entitlement to a Lien Charge under paragraph 20 of this Order; or (d) the priority of a Lien Charge under this Order.

23. THIS COURT ORDERS that, in connection with the matters in paragraphs 18 to 21 of this Order, the Monitor (i) shall have all of the protections given to it by the CCAA, this Order and any other orders of the Court in the CCAA Proceedings, (ii) shall incur no liability or obligation as a result of carrying out matters in connection with paragraphs 18 to 22 of this Order, (iii) shall be entitled to rely on the books and records of the Applicants and any information provided by the Applicants, all without independent investigation, (iv) shall not be liable for any claims or damages resulting from any errors or omissions in such books, records or information, and (v) may seek such assistance as may be required to carry out matters in connection with paragraphs 18 to 22 of this Order from the Applicants or any of their affiliates.

NON-DEROGATION OF RIGHTS

24. THIS COURT ORDERS that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of lease or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicants. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

25. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicants or the Protected Parties with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or

performance of such obligations, until a compromise or arrangement in respect of the Applicants, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicants or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

26. THIS COURT ORDERS that the Applicants shall indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

27. THIS COURT ORDERS that the directors and officers of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "Directors' Charge") on the Property, which charge shall not exceed an aggregate amount of \$600,000, as security for the indemnity provided in paragraph 26 of this Order. The Directors' Charge shall have the priority set out in paragraphs 45 and 47 herein.

28. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicants' directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 26 of this Order.

APPOINTMENT OF FINANCIAL ADVISOR

29. THIS COURT ORDERS that the agreement dated as of February 1, 2023, engaging Alvarez & Marsal Canada Securities ULC (the "Financial Advisor") as financial advisor to the Applicants (the "A&M Engagement Letter"), and the retention of the Financial Advisor under the terms thereof are hereby approved, including, without limitation, the Success Fee (as the term is defined in the A&M Engagement Letter). The Financial Advisor shall be entitled to the benefit

of and is hereby granted a charge (the "Financial Advisor's Charge") on the Property, which charge shall not exceed an aggregate amount of \$950,000, as security for the Success Fee. The Financial Advisor's Charge shall have the priority set out in paragraphs 45 and 47 herein.

APPOINTMENT OF MONITOR

30. THIS COURT ORDERS that RSM Canada Limited (the "Monitor") is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicants with the powers and obligations set out in the CCAA or set forth herein and that the Applicants and its shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicants pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

31. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicants' receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) assist the Applicants, to the extent required by the Applicants, in its dissemination, of information to creditors of the Applicants, including Waygar and its financial advisor;
- (d) assist the Applicants, to the extent required by the Applicants, in its dissemination, to the DIP Lender (as herein defined) and its counsel of financial and other information as agreed to between the Applicants and the DIP Lender which may be used in these proceedings including reporting on a basis to be agreed with the DIP Lender;

- (e) advise the Applicants in their preparation of the Applicants' cash flow statements and reporting required by the DIP Lender, which information shall be reviewed with the Monitor and delivered to the DIP Lender and its counsel on a periodic basis, but not less than weekly, or as otherwise agreed to by the DIP Lender;
- (f) [intentionally deleted];
- (g) [intentionally deleted];
- (h) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicants, to the extent that is necessary to adequately assess the Applicants' business and financial affairs or to perform its duties arising under this Order;
- (i) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order; and
- (j) perform such other duties as are required by this Order or by this Court from time to time.

32. THIS COURT ORDERS that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

33. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the

Canadian Environmental Protection Act, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

34. THIS COURT ORDERS that that the Monitor shall provide any creditor of the Applicants with information provided by the Applicants in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph or in paragraph 31 hereof. In the case of information that the Monitor has been advised by the Applicants is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant may agree.

35. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

36. THIS COURT ORDERS that the Monitor, counsel to the Monitor, the Financial Advisor and counsel to the Applicants shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, and, in the case of the Financial Advisor, pursuant to the A&M Engagement Letter, by the Applicants as part of the costs of these proceedings. The Applicants are hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the Applicant on a weekly basis, and the Financial Advisor on a monthly basis and, in addition, the Applicant is hereby authorized to pay to the Monitor, counsel

to the Monitor, and counsel to the Applicant, retainers in the amount[s] of \$65,000, \$60,000 and \$50,000, respectively, to be held by them as security for payment of their respective fees and disbursements outstanding from time to time. For clarity, in no circumstances shall Waygar be responsible for the Financial Advisor's monthly Work Fee (as that term is defined in the A&M Engagement Letter), including, without limiting the foregoing, by way of payment from the proceeds of sale of the Applicants' assets (including accounts receivable collections).

37. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

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

DIP FINANCING

39. THIS COURT ORDERS that the Applicants are hereby authorized and empowered to obtain and borrow under a credit facility (the "DIP Facility") from Ironbridge Equity Partners IV LP and Ironbridge Equity Partners (International) IV, LP (collectively, the "DIP Lender") in order to finance the Applicants' working capital requirements and other general corporate purposes and capital expenditures, provided that borrowings under such DIP Facility shall not exceed \$3,500,000 unless permitted by further Order of this Court.

40. THIS COURT ORDERS THAT such DIP Facility shall be on the terms and subject to the conditions set forth in the DIP Term Sheet between the Applicants and the DIP Lender dated August 25, 2023 (the “DIP Term Sheet”), filed, and the definitive documentation to be entered into pursuant thereto.

41. THIS COURT ORDERS that the Applicants are hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the "Definitive Documents"), as are contemplated by the DIP Term Sheet or as may be reasonably required by the DIP Lender pursuant to the terms thereof, and the Applicants are hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the DIP Term Sheet and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order

41A. THIS COURT ORDERS that the Applicants shall deposit all Advances (as defined in the DIP Term Sheet) into a bank account designed by the Borrower (the “Borrower’s Account”) and utilized by the Borrower in accordance with the terms of the DIP Term sheet and other Definitive Documents.

42. THIS COURT ORDERS that the DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the "DIP Lender’s Charge") on the Property, which DIP Lender's Charge shall not secure an obligation that existed before the first Order in these proceedings made on August 4, 2023. The DIP Lender’s Charge shall have the priority set out in paragraphs 45 and 47 hereof.

43. THIS COURT ORDERS that, notwithstanding any other provision of this Order:

(a) the DIP Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the DIP Lender’s Charge or any of the Definitive Documents;

(b) upon the occurrence of an event of default under the Definitive Documents or the DIP Lender's Charge, the DIP Lender, may immediately exercise any and all of its rights and remedies against the Applicants or the Property under or pursuant to the DIP Term Sheet, Definitive Documents and the DIP Lender's Charge, including without limitation, to cease making advances to the Applicants and set off and/or consolidate any amounts owing by the DIP Lender to the Applicants against the obligations of the Applicants to the DIP Lender under the DIP Term Sheet, the Definitive Documents or the DIP Lender's Charge, to make demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Applicants and for the appointment of a trustee in bankruptcy of the Applicants; and

(c) the foregoing rights and remedies of the DIP Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicants or the Property.

44. THIS COURT ORDERS AND DECLARES that the DIP Lender shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicants under the CCAA, or any proposal filed by the Applicants under the *Bankruptcy and Insolvency Act* of Canada (the "BIA"), with respect to any advances made under the Definitive Documents.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

45. THIS COURT ORDERS that the priorities of the Directors' Charge, the Administration Charge, the Financial Advisor's Charge, and the DIP Lender's Charge, as among them, shall be as follows:

First – the DIP Lender's Charge but only to the extent of the assets in the Borrower's Account at any time from time to time:

Second – the Administration Charge (to a maximum amount of \$750,000);

Third – the Directors' Charge (to a maximum amount of \$600,000);

Fourth – the DIP Lender's Charge (to a maximum of \$3,500,000); and

Fifth – the Financial Advisor’s Charge (to a maximum of \$950,000).

46. THIS COURT ORDERS that the filing, registration or perfection of the Directors’ Charge, the Administration Charge, the Financial Advisor’s Charge, the DIP Lender’s Charge or the Lien Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

47. THIS COURT ORDERS that each of the Charges shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "Encumbrances") in favour of any Person, notwithstanding the order of perfection or attachment, except (a) for any Person who is a “secured creditor” as defined in the CCAA that has not been served with the Notice of Application for this Order, and (b) for any claims of any person against the Applicants for amounts owing for services rendered and/or materials supplied that have priority over Encumbrances by statute.

48. THIS COURT ORDERS that the Applicants shall be entitled, at the Comeback Hearing, on notice to those Persons likely to be affected thereby, to seek priority of the Charges ahead of any Encumbrance over which the Charges may not have obtained priority pursuant to this Order.

49. THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicants also obtain the prior written consent of the Monitor and the beneficiaries of the Charges, or further Order of this Court.

50. THIS COURT ORDERS that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "Charges") thereunder shall not otherwise be limited or impaired in any way by (a) the

pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "Agreement") which binds the Applicants, and notwithstanding any provision to the contrary in any Agreement:

- (a) the creation of the Charges shall not create or be deemed to constitute a breach by the Applicants of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges; and
- (c) the payments made by the Applicants pursuant to this Order and the granting of the Charges do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

51. THIS COURT ORDERS that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicants' interest in such real property leases.

SERVICE AND NOTICE

52. THIS COURT ORDERS that service of the Applicants' Application Record and Supplementary Application Record, together with written confirmation of the date of such hearings, to any Person in respect of this Order constitutes notice of the Comeback Hearing.

53. THIS COURT ORDERS that the Monitor shall (i) without delay, publish in The Globe and Mail (National Edition) a notice containing the information prescribed under the CCAA, (ii) within five days after the date of this Order, (A) make this Order publicly available in the manner

prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Applicants of more than \$1000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

54. THIS COURT ORDERS that the E-Service Guide of the Commercial List (the “**Guide**”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Guide (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/eservice-commercial/>) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the *Rules of Civil Procedure*. Subject to Rule 3.01(d) of the *Rules of Civil Procedure* and paragraph 21 of the Guide, service of documents in accordance with the Guide will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Guide with the following URL ‘<<http://www.rsmcanada.com/quality-sterling-group>>’ (the “Monitor’s Website”).

55. THIS COURT ORDERS that the Monitor shall create, maintain and update as necessary a list of all Persons appearing in person or by counsel in these proceedings (the “Service List”). The Monitor shall post the Service List, as may be updated from time to time, on the Monitor's Website, provided that the Monitor shall have no liability in respect of the accuracy of or the timeliness of making any changes to the Service List.

56. THIS COURT ORDERS that if the service or distribution of documents in accordance with the Guide is not practicable, the Applicants and the Monitor are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile transmission to the Applicants’ creditors or other interested parties at their respective addresses as last shown on the records of the Applicants and that any such service or distribution by courier, personal delivery or facsimile transmission shall be deemed to be

received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

57. THIS COURT ORDERS that, notwithstanding anything in this Order or the August 4 Order (as herein defined), including any language granting priority charges over the Property of the Applicants, the issue as to priority as among the Charges (including the Interim Lender's Charge in the August 4 Order) and the security held by Mohawk, including any purchase money security interest, shall be deferred to the Comeback Hearing, or as may otherwise be agreed to by the parties. The Applicants are directed to identify and segregate into a separate bank account any proceeds received from and after August 4, 2023 in respect of goods in the possession of the Applicants as of or after August 4, 2023 and supplied by Mohawk.

58. THIS COURT ORDERS that nothing herein impacts or detracts from the provisions of the Order of this Court made on August 4, 2023 in these proceedings and in the Waygar application (the "August 4 Order"); provided, however, that upon the filing with this Court of a certificate of the Monitor confirming that the Interim Financing provided by Waygar pursuant to the August 4 Order has been paid in full net of the amount of \$707,000, the Interim Lender's Charge in favour of Waygar in the August 4 Order shall be finally discharged and no longer enforceable.

59. THIS COURT ORDERS that the Applicants or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

60. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicants, the Business or the Property.

61. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give

effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

62. THIS COURT ORDERS that each of the Applicants and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Monitor is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

63. THIS COURT ORDERS that any interested party (including the Applicants and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

64. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.



Schedule “A” – Other Applicants

A.1 QSG Opcos (in addition to QRCL)

1. Timeline Floors Inc.
2. Ontario Flooring Ltd
3. Weston Hardwood Design Centre Inc
4. Malvern Contract Interiors Limited

A.2 Holding Companies

5. Quality Commercial Carpet Corporation;
6. Joseph Douglas Pacione Holdings Ltd.;
7. John Anthony Pacione Holdings Ltd.;
8. Jopac Enterprises Limited;
9. Patjo Holdings Inc.

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

collectively, The Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at Toronto

INITIAL ORDER

Gardiner Roberts LLP
Bay Adelaide Centre
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Lawyer for the Applicants

APPENDIX H

**Quality Rugs of Canada Limited, Quality Commercial Carpet Corporation, Malvern Contract Interiors Limited and Timeline Floors Inc. & associated entities (the "CCAA Applicants" or the "Group")
For the 13 weeks ending November 24, 2023
Notes and Summary of Assumptions**

Disclaimer The cash flow projections have been prepared by management ("Management") of Quality Rugs of Canada Limited, Quality Commercial Carpet Corporation, Malvern Contract Interiors Limited and Timeline Floors Inc. (the "CCAA Applicants" or the "Group") to set out the forecast cash flow of the Group (the "Cash Flow Forecast") in the Companies' Creditors Arrangement Act proceedings (the "CCAA Proceedings") for the period August 25 to November 24, 2023 (the "Cash Flow Forecast Period"). The Cash Flow Forecast has been prepared by Management based on unaudited financial information, and Management's estimates of its projected receipts and disbursements. Readers are cautioned that since the estimates are based on future events, and conditions that are not ascertainable, the actual results achieved will vary, even if the assumptions materialize, and such variations may be material. There are no representations, warranties or other assurances that any of the estimates, forecasts, or projections will be realized. The projections are based upon certain estimates and assumptions discussed below with respect to operations, including the assumption that the Group continues to operate within the protections afforded as a result of an Initial Order being granted, and as may be amended from time to time during the CCAA Proceedings.

Note

Accounts receivable collections	1	Consistent with the collection pattern over the past twelve months, anticipated weekly accounts receivables collections have been calculated at approximately 7% of the AVR balance of nine weeks prior. This figure has then been adjusted for week-to-week timing differences (customer payment cycles within any given month, holidays, etc.).
Purchases of materials	2	Purchases of flooring surfaces and requisite installation supplies are based on Management's estimate of the appropriate amount required to, in aggregate with inventory on hand, meet forecast installations during the proceedings. It is assumed that purchases will be on a COD basis.
Payments to subcontractors	3	Subcontractors are paid one week in arrears on, substantially, a piecework basis. The forecast amounts represent approximately 32.5% of the prior week's revenue which is consistent with the ratio over the past twelve months.
Payroll and benefits	4	Forecast payroll disbursements include employee wages and vacation pay based on current bi-weekly amounts.
Employee Commissions	5	Commissions are based on a percentage of sales and/or gross margin achieved and are paid monthly in arrears in accordance with relevant employee agreements.
Rent	6	The Group currently operates from three locations - Vaughan, ON; Burnaby, BC; and, Calgary, AB - and also rents warehouse space in Ottawa, ON.
Selling, general & admin.	7	Selling, general, and administrative costs include, but are not limited to, employee related costs, travel, supplies & postage, insurance, communications, repairs & maintenance, utilities, etc., and are consistent with historical costs.
Sales taxes	8	Forecast HST/GST are based on adjusted sales and cost expectations and are remitted monthly.
Professional fees	9	The forecast professional fees include the outstanding and unpaid professional fees of the Proposed Monitor, legal counsel to the Monitor, and legal counsel to the Group as at the date of filing as well as the professional fees and expenses of the Monitor, legal counsel to the Monitor, legal counsel to the Group, and the legal counsel and financial advisor to the DIP Lender as incurred and paid during the Cash Flow Forecast Period.
Financing expenses	10	Financing expenses are comprised of interest on the DIP facility provided by Waygar Capital and then the CCAA Interim DIP facility as set out in the DIP facility term sheet.
Contingency	11	Management has included a contingency to address unforeseen costs that may occur over the Cash Flow Forecast Period.
Opening Interim Facility balance	12	Amount advanced under the DIP facility provided by Waygar Capital and it is contemplated that this facility will be repaid in its entirety during the week ended September 1st.
Draws	13	Interim lending is expected to be required during the forecast period to partially fund operations, professional fees and financing expenses. Draws will be made on the DIP facility when cash balances are insufficient. This cash flow assumes that an asset purchase agreement is executed no later than September 27th and that the additional \$2 million under the Ironbridge DIP facility will be available.
Ending Pre-Filing ABL balance	14	No interest or cash receipts will be remitted to the senior lender.

APPENDIX I

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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 OTHER COMPANIES LISTED IN SCHEDULE "A"
HERETO (collectively the "**Applicants**")

MONITOR'S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Justice Penny of the Ontario Superior Court of Justice (Commercial List) (the "**Court**") dated August 25, 2023 (the "**Initial Order**"), RSM Canada Limited, was appointed as monitor of the Applicants (in such capacity, the "**Monitor**") in proceedings commenced by the Applicants under the *Companies' Creditors Arrangement Act*.

B. Pursuant to the Initial Order, the Interim Lender's Charge in favour of Waygar Capital Inc. ("Waygar") made pursuant to an Order of this Court made on August 4, 2023 ("August 4 Order") is to be fully discharged and no longer enforceable upon the filing by the Monitor with this Court of a certificate, confirming that the Interim Financing provided by Waygar pursuant to the August 4 Order has been paid in full net of the amount of \$707,000.

C. Unless otherwise indicated or defined herein, capitalized terms used in this Monitor's Certificate shall have the meanings given to them in the Initial Order and August 4 Order.

THE MONITOR CERTIFIES the following:

1. In accordance with paragraph 58 of the Initial Order, the Interim Financing provided by Waygar pursuant to the August 4 Order has been paid in full net of the amount of \$707,000.

2. As a result of the payment noted above, and in accordance with paragraph 58 of the Initial Order, upon the filing of this Certificate with the Court, the Interim Lender's Charge is fully discharged and no longer enforceable.
3. DATED at Toronto, Ontario this 1st day of September, 2023.

RSM CANADA LIMITED
solely in its capacity as CCAA
Monitor of the Applicants and
not in its personal or corporate capacity

Per: 

Name: Arif Dhanani

Title: Vice-President

**SCHEDULE A
OTHER APPLICANTS**

A.1 QSG Opcos (in addition to QRCL)

1. Timeline Floors Inc.
2. Ontario Flooring Ltd
3. Weston Hardwood Design Centre Inc
4. Malvern Contract Interiors Limited

A.2 Holding Companies

5. Quality Commercial Carpet Corporation;
6. Joseph Douglas Pacione Holdings Ltd.;
7. John Anthony Pacione Holdings Ltd.;
8. Jopac Enterprises Limited;
9. Patjo Holdings Inc.

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 OTHER COMPANIES LISTED IN SCHEDULE "A" HERETO

Court File No. CV-23-00703933-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

PROCEEDING COMMENCED AT
TORONTO

MONITOR'S CERTIFICATE

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