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

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

SECOND REPORT TO THE COURT OF

RSM CANADA LIMITED, IN ITS CAPACITY AS MONITOR OF THE APPLICANTS

September 21, 2023

Table of Contents

Appendices

I. INTRODUCTION

1. On August 25, 2023, 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**") 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**"). The Companies' proceedings pursuant to the CCAA are referred to herein as the "**CCAA Proceedings**".

2. 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 Period**");

   (c) approved a debtor-in-possession loan 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 in accordance with the Cash Flow Forecast (as defined in the Monitor's First Report) to be advanced during the initial 10 days of the CCAA; and

   (d) granted the Administration Charge, Directors' Charge, DIP Lenders' Charge, Financial Advisor's Charge and Lien Charge (all defined in the Initial Order).

3. On September 5, 2023, the Initial Order was amended and restated (the "**ARIO**"), which, *inter alia*: (i) extended the Stay Period to October 31, 2023; and (ii) provided for borrowings under the DIP Facility to be increased to but not exceed $7 million, unless permitted by further order of the Court. A copy of the ARIO is attached hereto as **Appendix** "**A**".

4. 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

5. The purpose of this second report (the **"Second Report")** is to provide the Court with information pertaining to:

   (a) certain matters relating to QSG and its unions, including:

      i. a summary of the collective agreements QSG is bound to;

      ii. the issuance by the Labourers' International Union of North America Local 183 ("**LiUNA 183**") of letters dated August 16, 2023 (the "**Notice Letters**") to over 60 of QSG's builder customers, advising that QSG was in default of payment of certain remittances, the implications of those Notice Letters, and discussions between the Monitor's counsel, QSG's counsel and counsel to LiUNA 183; and

      iii. the Applicants' request for an Order directing LiUNA 183 to send a letter to all parties that were previously sent a Notice Letter, to correct the record and advise that QSG is currently compliant with its remittances and that there is no reason for customers of QSG to holdback payment of accounts receivable on account of a Notice Letter; and

   (b) the Applicant's request that the Court determine that, on the basis of comfort provided by QSG and Ironbridge (as herein defined) that they will honour the holdbacks of all installers, there is no basis for the relief sought in the motion filed by LiUNA 183 and Carpenters Union Local 27 (the "**Carpenters Union**") for the establishment of a dedicated or segregated fund in respect of the amounts from time to time held back from payments to installers to deal with potential quality issues with their work.

Terms of Reference

6. In preparing the Second 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, and counsel to Ironbridge Equity Partners Management Limited ("**Ironbridge**"), QSG and the Monitor (collectively, the "**Information**").

7. Certain of the information contained in the Second 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*. Accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information.

8. Capitalized terms not otherwise defined herein are as defined in the pre-filing reports of RSM, the First Report, the various Orders of the Court and other documentation filed in respect of the CCAA Proceedings, which can be found on the Monitor's Website.

9. Unless otherwise stated, all dollar amounts contained in the Second Report are expressed in Canadian dollars.

II. UNION MATTERS

Summary of Collective Agreements

10. Based upon information from QSG's labour counsel and materials which the Monitor understands will be filed by QSG, the Monitor understands that QSG is subject to four collective agreements, which impact QSG's operations. The following is a summary of the Monitor's understanding of the operations to which each collective agreement applies, the holdback provisions (if any) and any

requirement to hold funds in trust (if any) as contemplated in each collective agreement, all of which is based on information provided by QSG's labour counsel or the materials to be filed by QSG:

(a) **Brick Union Local 31 (BACU Agreement)**

The BACU collective agreement impacts QSG's high-rise tile operations. This agreement would typically would only be used by QSG for high-rise condo buildings. This collective agreement does not have any substantial holdback provisions. It only suggests that back-charges and holdbacks be discussed by the parties.

(b) **Carpenters Union Local 27 Agreement**

This is the Resilient Flooring Contractors Collective Agreement (the "**RFCCA**"). QSG became bound to this collective agreement on May 2, 2023. It became bound to this agreement automatically, after LiUNA 183 lost a representation vote on May 2, 2023 (the "**Vote**") to the Carpenters Union over the right to serve as bargaining agent for QSG's hardwood and carpet installers. The RFCCA is an accredited collective agreement, meaning that it is standard agreement for all contractors that the Carpenters Union has bargaining rights for who perform carpet and wood flooring installations. This agreement is negotiated between the Carpenters union and an employer's association, the Resilient Flooring Contractors Association of Ontario. The terms of this collective agreement cannot be altered and no other agreement can exist for this type of work. The work that QSG performs under this agreement is laminate flooring, wood flooring and carpet. The Monitor understands that most of QSG's pieceworkers likely work under this agreement.

The holdback amount for deficiencies is $2,000 per pieceworker (the "**Deficiency Holdback**"). There are no obligations on the company for a trust or a separate account in which funds are to be held.

(c) **LiUNA 183 – Wood and Carpet Agreement**

This agreement should not have any QSG installers actively working under it. All QSG installers who perform this work should be working under the RFCCA with the Carpenters Union from May 2, 2023, onwards. Other than some outstanding grievances that exist and the holdback issue (if any exists – outlined below), there are no grounds or basis for any current QSG installer to have a claim under this agreement with QSG.

As discussed above, QSG should have no pieceworkers working under this agreement, but there may be installers who did not transfer over to the Carpenters Union and now work for another contractor who is bound to this agreement. If that is the case, QSG may still have a holdback amount for these installers, even if they are not covered by the agreement. The collective agreement allows the company to retain the holdback for a period of 24 months after the installer last performed work for QSG.

This is the only agreement that makes any reference to a "trust". The agreement contemplates QSG holding money in trust and designating a separate account for this money. However, as of May 2, 2023, this would only impact those pieceworkers who left QSG following the Vote and chose to work with another contractor bound to LiUNA 183, if any. All of the other pieceworkers who stayed with QSG and perform wood or carpet installations would fall under the Carpenters Agreement, which does not obligate any trust or separate account in which holdback funds are to be held.

The Monitor understands that, when pieceworkers transfer from LiUNA 183 to the Carpenters Union, the obligations in the LiUNA 183 agreement would not carry through to the Carpenters Union agreement. Meaning, if there was an obligation to create a trust or separate account under the LiUNA 183 agreement, this obligation would have ended for the majority of QSG installers as of May 2, 2023.

As noted in the LiUNA 183 materials, there is one individual who has asked for his holdback to be returned, an installer who did not go to the Carpenter's

Union and did not work for QSG any longer. The invoice issued by that installer for the return of holdback was undated and the Monitor had asked for information as to when the request was made and when the installer ceased to work for QSG. The LiUNA 183 materials suggest that the installer made the request in May of 2023. The QSG materials note that his last invoice for work was May 6, 2023, and notes that, since the holdback period is 24 months, this invoice may have been submitted in an undated fashion as a litigation tactic. While the period of 24 months has not yet passed, given it is only 1 installer and $2,000, the Monitor would be fine to see that amount paid to the installer to conclude matters on this agreement.

(d) **Labourers Union Local 183 – Tile Agreement**

This agreement is for low-rise residential tile. Similar to the Carpenters Union agreement, this agreement is an accredited agreement that is negotiated between the LiUNA 183 and an employer's association. While the agreement covers both high-rise and low-rise tile, due to the agreement with the Brick Union, QSG is only bound to this agreement with respect to low-rise tile.

On May 3, 2023, LiUNA 183 abandoned this agreement. They did this following the above referenced Vote in respect of the wood and carpet agreement. As a result of various legal filings and an ultimate settlement, there was a settlement that allowed this agreement to stay in effect until May 1, 2024. This allowed QSG to finish off some of their contracts with certain builders who are bound to LiUNA 183 and can only sub-contract work to flooring contractors who are in a bargaining relationship with LiUNA 183.

From present until May 1, 2024, QSG will have some installers who perform work under this agreement. Similar to the Carpenters Union agreement, this agreement does not create an obligation on QSG to create a separate trust account. It creates an obligation on QSG to create a holdback summary report and limits the amount of time for which a trust can be held

for, which is 6 months from the time the work is completed or 3 months after the employees stopped working for QSG.

The Notice Letters

11. The Monitor understands that, within 15 days of the end of each month, QSG is required to remit funds to LiUNA 183 in respect of, *inter alia*, union dues, pension benefits, and other amounts, calculated as a percentage of the total amount paid to installers for the month in question. These amounts are referred to as the monthly remittances for the prior month.

12. The Monitor further understands that, due to an administrative oversight, QSG's cheques dated August 15, 2023 for the remittances for the month of July 2023 were delivered to LiUNA 183 on August 16, 2023 instead of August 15, 2023. The Monitor has reviewed the books and records of QSG, traced the related cheque amounts to QSG's bank statements and confirmed that the related cheques were cashed between August 18, 2023 and August 30, 2023.

13. The Monitor notes that at paragraph 42 of the affidavit of Graham Williamson sworn September 19, 2023 and appended to the motion record of LiUNA 183 (the "**Williamson Affidavit**"), Mr. Williamson confirms that the remittance amounts payable by QSG for the month of July 2023 were received by LiUNA 183 on August 17 and August 21. Clearly, LiUNA 183 was aware that any technical breach of payment by August 15 was rectified by payment within a week later.

14. On August 16, 2023, notwithstanding becoming aware of QSG's CCAA application on August 14, 2023 and the stay of proceedings set out in the Order of the Court dated August 4, 2023, LiUNA 183 sent the Notice Letters to over 60 builder customers of QSG alleging, inter alia, that QSG:

    (a) failed to remit contributions and deductions relating to work performed the Union's members at the Projects;

    (b) is maintaining holdbacks in the amount of $95,083.41; and

    (c) the estimated total liability owed to the Union and its members by QSG is approximately $250,000.

15. In the Notice Letters, LiUNA 183 gives those builders notice of its intention to lien and requests certain information in respect of section 39 of the *Construction Act*. A sample copy of the Notice Letter is attached hereto as **Appendix** "**B**". The Monitor understands that other versions of the Notice Letters also suggested to these builders that they would be seeking a payment freeze under arrangements with applicable building associations.

16. Understandably, many builders who received the Notice Letter are reluctant to pay QSG without LiUNA 183 clarifying that QSG is current in its remittance obligations. When QSG and the Monitor became aware of this issue, they began seeking payments from builders and, through counsel, asked LiUNA 183 to send letters clarifying that the remittances were paid. LiUNA 183 refused to do so. Multiple efforts were made through counsel to resolve this issue, with no movement.

17. The Monitor became aware of 1 instance where a builder had exchanged emails with the LiUNA 183 in-house lawyer who had signed the Notice Letters, and the in-house lawyer had responded to that builder on September 5 confirming that the remittances were current. That builder paid QSG.

18. When the Monitor became aware that almost $2 million in receivables was being specifically withheld by builders over this issue, the Monitor worked with QSG to send emails to each of the builders, providing a copy of the above-noted September 5th email from the LiUNA in-house lawyer (with the name and information of the builder who shared it with QSG being redacted), confirming that remittances were current and asking the builder to make payment to QSG. Attached hereto as **Appendix** "**C**" is a copy of one such email, with names and amounts redacted.

19. These emails from the Monitor were not successful as the builders still demanded something from LiUNA 183 to confirm the remittances are current. In fact, and contrary to the assertions in paragraph 58 of the Williamson Affidavit (and implications elsewhere therein) that the Union is responding to enquiries from builders, at least 2 builders specifically told the Monitor or its counsel that they had

written to the LiUNA in-house lawyer in question, the author of the Notice Letters, asking for clarification, and they had never received a response.

20. As of the date of this Report, LiUNA 183 refuses to send such a letter to builders. To be clear, the email sent by Mr. Williamson to builders' associations on September 16, 2023, which is referenced in paragraph 55 of the Williamson Affidavit and attached as Exhibit T thereto, is insufficient for a number of reasons, all of which are known to LiUNA 183. The Monitor notes that paragraph 55 of the Williamson Affidavit fails to disclose the entirety of what the email in fact said, as the email contained a significant misrepresentation to the builders' associations, and also makes crystal clear what LiUNA 183's strategy is with respect to this matter.

The Events of September 15 and Subsequent

21. As of September 15, 2023, QSG had already delivered to LiUNA 183 all required cheques for the August remittances, and the Carpenters Union had picked up their cheques for the same type of remittances. Furthermore, all amounts to be paid to installers for their work are current as of the date of this Second Report. Furthermore, QSG is tracking and accounting for all ongoing holdbacks for installer work.

22. Counsel for LiUNA 183 and the Carpenters Union made a request of QSG's counsel to have a call at the end of the week ending September 15, 2023 to discuss their positions. Counsel for the Monitor and QSG thought that was a good idea given the September 22nd hearing date, and to raise the issues regarding the Notice Letters and to try to find a solution.

23. The Monitor is advised by its counsel that a video call was convened at 4:30 pm on Friday, September 15, 2023 among counsel for LiUNA 183, the Carpenter's Union, QSG, Ironbridge and the Monitor, as well as labour counsel for QSG. The Monitor is further advised by its counsel that, despite counsel for LiUNA 183 and the Carpenter's Union repeatedly stating that the discussion was without prejudice, paragraph 58 of the Williamson Affidavit specifically refers to that call but reveals only certain aspects of that call which paint a picture of things in a way favourable

to LiUNA 183 and its position. The Monitor is advised by its counsel that the Williamson Affidavit omits important and relevant information about that call, which this Court would find instructive in considering the conduct of LiUNA 183 in this matter and would provide the Court with a clearer understanding of what LiUNA 183's underlying strategy now appears to have been.

24. The Monitor is advised by its counsel of the following from the September 15th video call noted above:

    (a) the parties quickly agreed upon a path to deal with most of the issues raised by the Carpenter's Union, leaving only the issue of the 2 unions requesting that the holdback amounts be placed into a trust account now or be held separate and apart, and the issue of QSG and the Monitor requesting that LiUNA 183 send a letter to the builders clarifying that there was no longer a default in payment of remittances by QSG;

    (b) on the matter of the holdback amounts, counsel for QSG confirmed that the collective agreements do not provide that any holdbacks deducted be held in a separate account or in trust, and that QSG does not maintain separate bank accounts or hold separate funds for the holdback. Accordingly, QSG could not agree to create a trust now, to improve the position of the installers. Furthermore, counsel for QSG and the Monitor recognized that the holdbacks are obligations under the collective agreements, confirmed that all remittances and payments to the installers or the unions were current, continued honouring of the holdback amounts was not impaired by the filing and that no installer had lost their holdback amount. Rather, assurances were provided in that call that, under the direction of the Monitor, QSG would continue to recognize the holdback as an obligation, and Ironbridge would continue to do so after the closing of the sale, meaning that there would be no issue or lapse of coverage for the installers.[1] At the end of this discussion, counsel for Ironbridge asked counsel for LiUNA 183

[1] Counsel for QSG, who has had most of the conversations with counsel for LiUNA 183, has advised the Monitor that he has never suggested in any conversation or email that the holdbacks would not be honoured by QSG and, in fact, has advised counsel for LiUNA 183 to the contrary.

to advise what their "reasonable ask" would be to confirm Ironbridge's intentions post-closing. Counsel for LiUNA 183 agreed to take this back to their client and provide a response when they had instructions;

(c) on the matter of sending a letter to the builders that confirmed the remittances were current, counsel for LiUNA 183 stated that it could not do that because there was a default over the failure to hold the holdback in trust or in a separate account. When reminded that the operative collective agreements do not provide for trusts or separate accounts, counsel for LiUNA 183 still did not agree, and said that builders should contact LiUNA 183 because LiUNA 183 was responding to all such enquiries as evidenced by the September 5th email the Monitor had attached to its emails to builders. When advised that at least 2 builders said they had emailed the author of the Notice Letter and had no response, counsel for LiUNA 183 advised that the author no longer worked for LiUNA, and asked to have builders contact Mr. Williamson, or to provide the names of the builders to counsel for LiUNA 183 and they would ask Mr. Williamson to respond. Monitor's counsel expressed concern with having Mr. Williamson call builders to advise that, while remittances were paid, the holdback issue was a breach, which would only confuse matters. Counsel for the Monitor asked counsel for LiUNA 183 to get instructions from their client on whether they were amenable to providing a simple statement that remittances were up to date to get money flowing, and then a communication plan could be agreed upon. Counsel for LiUNA 183 agreed to seek those instructions and respond; and

(d) the video call then ended, and the only response that was provided by counsel for LiUNA 183 was to write a brief email to counsel for QSG, Ironbridge and the Monitor on the evening of September 15, 2023 to advise that they were seeking instructions but that they did not expect to get instructions until Sunday afternoon. That September 15th email was titled "without prejudice".

25. On Sunday, September 17, 2023, counsel for LiUNA 183 sent an email to counsel for QSG, copying counsel for the Monitor. The September 17th email, which was not "without prejudice", did not provide the expected responses to the 2 items that counsel for LiUNA 183 had said they would seek. Rather, that September 17th email sought, on a ***with prejudice*** basis, written confirmation of a number of things that counsel for LiUNA 183 learned in the without prejudice call on September 15th – all relating to whether the holdback funds were being held separate and apart or in trust. A copy of that September 17th email is attached as **Appendix** "**D**".

26. No response was ever provided to counsel for LiUNA 183 in respect of the September 17th email because, after discussing it with the affected counsel, QSG and the Monitor realized it was intended to set up QSG for something that none of QSG, the Monitor or their counsel fully understood at that moment.

27. Instead of responding to the points in the September 17th email, on September 19, 2023, counsel for QSG wrote to counsel for LiUNA 183, asking on a ***with prejudice*** basis for LiUNA 183 to write letters to the builders to clarify that the remittances were current, and noting that over *$7.7 million* of builder receivables could be affected by those Notice Letters. A copy of this September 19th email is attached hereto as **Appendix** "**E**".

28. Counsel for LiUNA 183 replied at 3:30 pm on September 19th, noting the lack of response to their September 17th email, and advising of their views on the QSG request, much of which is repeated in the Williamson Affidavit. The Williamson Affidavit, over 500 pages and in 2 pdf volumes, was received on September 19, 2023 at 6:35 pm.

29. Counsel for LiUNA 183 never provided a response to counsel for QSG, the Monitor or Ironbridge in respect of the matters which those parties had attempted in good faith to work through with counsel for LiUNA 183 on September 15th.

30. On a review of the Williamson Affidavit, the Monitor was struck by a number of the statements made therein without any factual support and which could be very damaging to QSG (for example suggesting that non-payment of receivables was attributable to QSG abandoning projects, which has not happened). The Monitor

views such statements as irresponsible and potentially damaging to QSG and its business.

31. The Monitor and its counsel then participated in a video call on September 20, 2023 with counsel for QSG to discuss the manner of responding to the Williamson Affidavit. During that call, labour counsel for QSG advised QSG's restructuring counsel that in fact LiUNA 183 had just filed the Williamson Affidavit in an arbitration proceeding arising from an interest arbitration which had taken place in September and December of 2022.

32. The Monitor now understands that the LiUNA 183 tile collective agreement is in a form used widely in the industry and that, in an interest arbitration in September and December of 2022, LiUNA 183 had tried to get the arbitrator to remove the holdback provision from that collective agreement, in favour of a looser charge back concept which industry constituents apparently would not accept. The arbitrator refused to deal with that issue in those arbitrations and reserved it to the future. An arbitration proceeding arising from that interest arbitration was scheduled to be heard on September 20, 2023. While the holdback issue was among many on the agenda for that hearing, it was not a focus of any of the parties until LiUNA 183 filed the Williamson Affidavit and tried to use the statements therein to encourage the arbitrator to rule in their favour to strike the holdback clause from the collective agreement. In doing so, LiUNA 183 advised the arbitrator of this motion and that there may soon be reasons issued by the CCAA Court with respect to the holdback matter. LiUNA 183 apparently takes the position that, since QSG and other industry constituents do not put the holdback into a separate account, despite any deficiencies in the wording of the collective agreement on that front, the failure to so hold funds evidences a failure of that system and merits its removal from the collective agreement. The potential impact of such a decision by the arbitrator would be industry wide. The Monitor understands that the arbitrator adjourned the holdback issue to December of 2023.

33. On being advised of this, it occurred to the Monitor, its counsel and counsel for QSG and Ironbridge that the entire issue of the holdback may never have really

been about getting the money paid into trust or a separate account for the installers of QSG. Rather, LiUNA 183 appears to have wanted a decision from this Honourable Court, either to obtain a precedent saying that the holdback monies must be held in trust despite the wording of the collective agreement, or rejecting that argument so that LiUNA 183 would have a decision it can use to say that the holdback system does not work and to urge the arbitrator to delete the holdback provision for LiUNA 183's benefit across the industry.

34. Critical to understanding LiUNA 183's strategy is the September 16th email sent by Mr. Williamson and referred to in paragraph 55 of the Williamson Affidavit. Paragraph 55 of the Williamson Affidavit paints this email as a gesture of the good faith of LiUNA 183, advising builders that remittances were current and to contact Mr. Williamson should they have any questions. On the face of paragraph 55, one would think that LiUNA 183 had just done what the Monitor and QSG were asking it to do.

35. However, paragraph 55 of the Williamson Affidavit fails to disclose the second paragraph of that email, which contains both a knowingly inaccurate statement about the treatment of holdbacks in this CCAA process, and a clear link to their desire to use this to change the collective agreement in the industry. A copy of the September 16 email from Mr. Williamson is attached hereto as **Appendix** "**F**".

36. The September 16th email from Mr. Williamson was sent to 5 building associations and was not copied to QSG or the Monitor for now obvious reasons. First, the email acknowledges that the July and August remittances are current. However, in the second paragraph, it goes on to say that the holdbacks were never held in trust or separate and apart and then tells the building associations that QSG and the Monitor "want to argue that those amounts should be wiped out along with the $20 million they owe trade suppliers and contractors. We may really need to re-examine the concept of the holdback or how it is dealt with in our collective agreement." It concludes by asking the associations to direct builders to him for any questions.

37. These comments in the Williamson email are frankly outrageous, in light of them having been sent out on a Saturday morning just over 12 hours after the video call in which counsel for LiUNA 183 was told specifically that the plan is to honour the holdbacks both during the CCAA process and afterwards through the purchaser. Furthermore, the sentence about needing to change the collective agreement, particularly in light of the fact that this email was sent to the associations representing other builders who would be impacted by the interest arbitration, makes it crystal clear that this is about LiUNA 183 getting the change it wants in the collective agreements industry wide.

38. The September 16th Williamson email is anything but evidence of good faith. The Monitor also notes that the September 16th email is exactly the kind of message which the Monitor's counsel advised counsel for LiUNA 183 was why the Monitor would not direct builders to contact Mr. Williamson without understanding exactly what he would say.

39. Based on the foregoing, it now appears to the Monitor that, on the issues regarding the holdback, LiUNA 183 is not principally interested in protecting the installers who work for QSG, since all payments and remittances to them are 100% current, and because both QSG and Ironbridge have offered to provide assurances that they will honour the holdbacks as obligations under the collective agreements. Rather, it appears that LiUNA 183 is willing to risk depriving QSG of funds from the builders at a critical time, even if it starves the QSG business of working capital and harms the interests of QSG and all of its stakeholders, because LiUNA 183 is desirous of implementing an industry-wide change with respect to not requiring holdbacks to be deducted from the payments to installers.

40. The impact on QSG's accounts receivable collections is set out the latest variance analysis provided by QSG's Chief Financial Officer (the "**CFO**"), which is set out below. Accounts receivable collections are lower than forecast on a cumulative basis through week 2 of the CCAA Proceedings by $2.3 million and the Monitor understands that this is primarily a result of the impact of the Notice Letters.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT PROCEEDING OF QUALITY STERLING GROUP
DIP TERM SHEET CASH FLOW VARIANCE REPORT
(IN $000'S)

Week	**Week 2**	**Week 2**	**Week 2**	**Cumulative**		
Week Ended	**Sep 8**	**Sep 8**	**Sep 8**	*to end of Week 2*		
	Forecast	Actual	Variance	Forecast	Actual	Variance
Receipts						
Accounts receivable collections	$ 3,936	$ 956	($ 2,980)	$ 5,684	$ 3,377	($ 2,307)
Other receipts	-	-	-	-	-	-
Net cash receipts	3,936	956	(2,980)	5,684	3,377	(2,307)
Disbursements						
Purchases of materials	1,467	589	878	2,802	1,434	1,368
Payments to subcontractors	627	478	149	1,254	1,076	178
Payroll and benefits	25	1	24	521	442	79
Employee commissions	-	0	(0)	-	0	(0)
Rent	-	-	-	125	81	44
Selling, general & admin.	78	155	(77)	156	303	(147)
Sales taxes	-	-	-	-	0	(0)
Professional fees	130	228	(98)	456	228	228
Repayment of Waygar obligations	-	-	-	1,500	884	616
Financing expenses	6	-	6	18	-	18
Contingency	50	-	50	100	-	100
Total disbursements	2,383	1,451	932	6,931	4,447	2,483
Net cash flow	1,553	(495)	(2,048)	(1,246)	(1,070)	176
DIP funding required/received	-	-	-	2,799	3,000	201
Opening cash balance	-	5,100		-	2,674	
Ending cash balance	1,553	4,604		1,553	4,604	
DIP Facility						
Opening DIP Facility balance	2,799	3,000		-	-	
Draws (repayments)	-	-		2,799	3,000	
Ending Interim DIP Facility balance	$ 2,799	$ 3,000		$ 2,799	$ 3,000	

41. The Monitor notes that one of the terms of default under the DIP Term Sheet is a negative variance covenant that states that "A negative variance of the net cash flows of more than 15% compared to the Approved Cash Flow on a cumulative basis since the beginning of the period covered thereby commencing two weeks after the Initial Advance, provided that the payment of the DIP Lenders' expenses pursuant to this Agreement (if paid prior to Maturity Date) shall be excluded from such calculation". On this basis, the Monitor believes that immediate issuance of the retraction letters by LiUNA 183 is critical so that the collection of accounts receivable re-commence immediately in the ordinary course and that there is no default under the DIP Facility.

42. Finally, the Monitor now questions whether counsel to LiUNA 183 participated in the September 15, 2023 video call in a good faith effort to resolve matters. They

obtained information on a without prejudice basis, as well as comfort of performance on the holdbacks, and they said they would seek instructions on 2 specific items, which they never responded on. Rather, while telling QSG and the Monitor by email that they were seeking instructions, they used the intelligence they gathered to determine what questions to ask on a with prejudice basis. They also sent the September 16th email to the builders' associations containing false statements about the treatment of the holdbacks, and they appear to have spent the weekend putting together an affidavit which they also intended to use in the arbitration proceedings to try to achieve what appears to be their principal strategic goal.

43. For all of the foregoing reasons, the Monitor respectfully recommends that the Court:

    (a) refuse to grant the motion of LiUNA 183, but to do so in a fashion which does not provide it with a precedent to take to the arbitrator to seek to remove the holdback provisions from the collective agreements;

    (b) grant an order in favour of QSG declaring that QSG is current in all payments and remittances, contrary to the information contained in the Notice Letters, and directing LiUNA 183 to forthwith issue a simple letter, in the form appended to the QSG Motion Record, to all builders who were the recipients of a Notice Letter.

III. CONCLUSION

44. Based on the foregoing, the Monitor respectfully recommends that this Court grant the relief requested by the Applicants in its notice of motion and specifically that the Court:

    (a) refuse to grant the motion of LiUNA 183, but to do so in a fashion which does not provide it with a precedent to take to the arbitrator to seek to remove the holdback provisions from the collective agreements; and

(b) grant an order in favour of QSG declaring that QSG is current in all payments and remittances, contrary to the information contained in the Notice Letters, and directing LiUNA 183 to forthwith issue a simple letter, in the form appended to the QSG Motion Record, to all builders who were the recipients of a Notice Letter.

All of which is respectfully submitted to this Court as of this 21st 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-23-00703933-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	TUESDAY, THE 5TH
MR JUSTICE PENNY	)	DAY OF SEPTEMBER, 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**")

AMENDED AND RESTATED INITIAL ORDER
(Amending Initial Order Dated August 25, 2023)

THIS MOTION, 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 affidavit of John Pacione sworn September 2 , 2023 and the Exhibits

thereto (the "Third Pacione Affidavit"), 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, the first report of RSM Canada Limited as the Court-appointed monitor of the Applicants (in such capacity, the "**Monitor**"), 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 Motion and the Motion Record and the Supplementary Motion Record is hereby abridged and validated so that this Motion 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. THIS COURT ORDERS that the Applicants shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "Plan").

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.

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 and the DIP Term Sheet, 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 4, 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 October 31, 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, subject to paragraph 21, the Lien Claimant shall be entitled to a charge over any Property of the Applicants, other than the Borrower's Account, 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.

20A. THIS COURT ORDERS that, subject to paragraph 21, any Lien Claim preserved by any person in respect of a project in which the Applicants are a contracting party, which has not been bonded off as of the date of this order, is hereby vacated on terms that any person having such a Lien Claim shall be deemed to have provided the Lien Notice referred to in paragraph 19 of this order on the date of preservation of such Lien Claim, and shall be entitled to the Lien Charge referred to in paragraph 20 of this order (as may be subsequently amended), provided that the vacating and preservation of such Lien Claims pursuant to this paragraph shall not be deemed to cure any default triggered by the filing of a lien under any contract with any owner or contracting party of the Applicants.

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, other than the Borrower's Account, 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, other than the Borrower's Account, 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) advise the Applicants in their development of the Plan and any amendments to the Plan;

(g) assist the Applicants, to the extent required by the Applicants, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;

(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, other than the Borrower's Account, which charge shall not exceed an aggregate amount of $750,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, and, in the case of the Financial Advisor, pursuant to the A&M Engagement Letter, for the period from

and after August 18, 2023 in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 45 and 47 hereof.

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 $7,000,000 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, including the Borrower's Account, 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 $7,000,000); 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 the Borrower's Account, as applicable, and such Charges (except for the Lien Charge, which is dealt with in paragraph 20) 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 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 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.

49. 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 "Chargees") 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.

50. 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

51. 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.

52. 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").

53. 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.

54. 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

55. 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.

56. THIS COURT ORDERS and the Interim Lender's Charge in favour of Waygar made pursuant to the August 4 Order is fully discharged and no longer enforceable as the Monitor has filed with this Court a certificate, confirming that the Interim Financing provided by Waygar pursuant to the August 4 Order was paid in full net of the amount of $707,000.

57. 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.

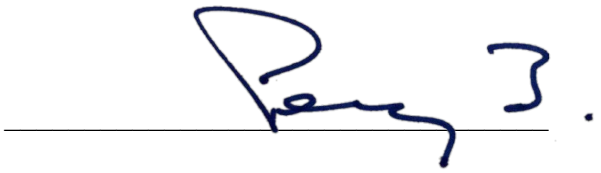
58. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicants, the Business or the Property.

59. 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.

60. 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.

61. 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.

62. 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

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

collectively, The Applicants

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

AMENDED AND RESTATED INITIAL ORDER

Gardiner Roberts LLP
Bay Adelaide Centre
22 Adelaide Street West, Suite 3600
Toronto, ON M5H 4E3

Christopher Besant (LSO#24882O)
Email: cbesant@grllp.com
Tel: (416) 865 4022

Lawyer for the Applicants

7406884

APPENDIX B

LiUNA!
LOCAL 183
1263 Wilson Ave. Suite 200, Toronto ON M3M 3G3
T: 416.241.1183 | F: 416.241.9845 | Toll Free:1.877.834.1183

Eastern Office
P.O. Box 156 560 Dodge St.
Cobourg ON K9A 4K5
T: 905.372.1183
F: 905.372.7488
1.866.261.1183

Northern Office
64 Saunders Road
Barrie ON L4N 9A8
T: 705.735.9890
F: 705.735.3479
1.888.378.1183

Kingston Office
45 Dalton Avenue, Unit 1
Kingston ON K7K 6C2
T: 613.542.5950
F: 613.542.2781

www.liunalocal183.ca

August 16, 2023

Via Registered Mail and Fax:
416-243-7192

Maramel Homes
200 Ronson Drive, Suite 203
Etobicoke, ON M9W 5Z9

Via Registered Mail and Fax:
905-585-4801

Quality Sterling Group
505 Cityview Boulevard
Woodbridge, ON L4H 0LB

Lien Claimant:	Janusz Argasinski as agent for the Trustees of the Labourers' Pension Fund of Central and Eastern Canada, the Local 183's Members' Benefit Fund, Labourers' Local 183 Members' Vacation Pay Trust Fund, Labourers' Local 183 Members' Training and Rehabilitation Fund, Labourers' Local 183 Retiree Benefit Trust Fund, Labourers' Local 183 Prepaid Legal Benefits Fund, Labourers' Local 183 Promotional Benefits and for all effected members of Labourers' International Union of North America, Local 183
Defaulting Contractor:	Quality Sterling Group
Owner:	Maramel Homes
Project:	Shelburne Towns, Shelburne ON

I am Legal Counsel for Labourers' International Union of North America, Local 183 (the "Union") and represent the Lien Claimant with respect to the above-noted matter.

We understand that the Owner/Builder contracted the installation of tiles on the Projects to the Defaulting Contractor. The Defaulting Contractor is bound to a collective agreement between the Union and the Residential Tile Contractors Association (the "RTCA Collective Agreement") which requires, among other things, that they pay certain monthly contributions and deductions (including, but not limited to, pension and benefit contributions) for all work performed by members of the Union. The Defaulting Contractor has failed to remit contributions and deductions relating to work performed by the Union's members at the Projects. In addition, the Defaulting Contractor is maintaining holdbacks in the amount of $95,083.41. The Union estimates that the total amount of QSG's liability to the Union and its members is approximately $250,000.00.

It has come to our attention that the Defaulting Contractor has also defaulted on other creditors and owes approximately $80 million to such creditors. The Defaulting Contactor has filed an application under the *Companies' Creditors Arrangement Act* (R.S.C., 1985, c. C-36) seeking to sell the business while its major creditor who is owed approximately $50 million, has filed a competing application to install a monitor. The Union is seriously concerned about the Defaulting Contractor's ability to meet its obligations under the RTCA Collective Agreement.

The Union hereby gives notice of its intention to lien and requests the following information pursuant to section 39 of the *Construction Act* within a reasonable amount of time, not to exceed 21 days hereof.

From the Owner/Builder:

1. The names of the parties to the contract pursuant to which the Defaulting Contractor performed work at the Projects;

2. The contract price;

3. The state of accounts between the Builder and the Defaulting Contractor;

4. A copy of any labour and material bond in respect of the contract posted by the Defaulting Contractor;

5. Whether the contract provides in writing that liens shall arise and expire on a lot-by-lot basis; and

6. Whether the contract provides that payment under the contract shall be based on the completion of specified phases or the reaching of other milestones in its completion.

In addition, we ask for the following information from the Defaulting Contractor:

1. The state of accounts between the Defaulting Contractor and all subcontractors or pieceworkers that have performed work covered by the RTCA Collective Agreement at the Projects; and

2. To inspect the Defaulting Contractors' payroll records for all hourly employees performing work covered by the RTCA Collective Agreement at the Projects.

Please be advised that you may be liable for any damages sustained by the Lien Claim by reason of your failure to provide us with the foregoing information within the time period stipulated above.

We look forward to hearing from you at your earliest opportunity. Should you have any questions or concerns, please contact the undersigned at 416-241-1183 x 6514 or mmerchant@liuna183.ca.

Yours truly,

Maheen Merchant
Legal Counsel
MM/mdm
cc: Luis Camara, Secretary/Treasurer/Sector Coordinator
Janusz Argasinski, Sector Coordinator
Alex Camara, Sector Coordinator

FAX		
	To:	Sir/Madam
	Fax No:	14162437192
	From:	Jacklyn Collins
	Contact No:	
	Date:	08-17-2023 10:35 AM
	Subject:	QSG
	No. of Pages (with cover):	3

Please see the attached.

[end of cover page]

APPENDIX C

Dhanani, Arif

From: Dhanani, Arif
Sent: Friday, September 15, 2023 9:56 AM
To: [redacted]
Cc: Axell, Erik
Subject: In the Matter of the CCAA Proceedings of Quality Sterling Group
Attachments: Union Retraction of Arrears Notice_Redacted.pdf; LiUNA Letter.pdf

Dear Ms. [redacted],

We are the Monitor of Quality Sterling Group ("QSG") , appointed by an Order of the Ontario Superior Court (Commercial List) issued on August 25, 2023, as amended and restated on September 5, 2023.

A review of QSG's records indicates, as confirmed by QSG personnel, that [redacted] currently owes QSG $[redacted] and payment is overdue. A breakdown by company is set out below:

Company	Amount Due
[redacted]	

We understand from QSG that this amount is being withheld because of a letter sent by LiUNA Local 183 (the "Union") on August 16, 2023 (copy attached), to various owners/builders who have contracts with QSG. The letter asserted that QSG has failed to remit contributions and deductions relating to work performed by Union members at the owners'/builders' projects.

We are writing to you to confirm that those remittances have been paid as evidenced by the attached email sent from the Union to an owner/builder on September 5, 2023. We can also confirm that QSG is current with its monthly contribution and deductions to the Union as required under the collective agreement between the Union and the Residential Tile Contractors Association. Accordingly, there is no impediment to making the outstanding payment.

In our capacity as Monitor and pursuant to your obligations to QSG, kindly confirm that you will be making immediate payment of the above referenced amount owing to QSG.

Thank you for your attention to this matter.

Details of the proceedings and Orders made can be found on the CCAA Monitor's website at: http://www.rsmcanada.com/quality-sterling-group.

Yours truly,

RSM CANADA LIMITED
solely in its capacity as Court-appointed Monitor
of Quality Sterling Group and not in its personal
or corporate capacity

Arif Dhanani
Vice-President

RSM Canada Limited
Licensed Insolvency Trustee
11 King St. W., Suite 700, Box 27, Toronto, Ontario, Canada, M5H 4C7
D: 647.725.0183 I **F:** 416.480.2646 I **E**: arif.dhanani@rsmcanada.com I **W**: www.rsmcanada.com

APPENDIX D

From: Demetrios Yiokaris <dyiokaris@kmlaw.ca>
Date: September 17, 2023 at 5:28:13 PM EDT
To: "Besant, Chris" <cbesant@grllp.com>, "Latham, Joe" <jlatham@goodmans.ca>
Cc: Michael Mazzuca <Michael@rousseaumazzuca.com>, Daniel Wright <Dwright@rousseaumazzuca.com>, Graham Williamson <gwilliamson@liuna183.ca>
Subject: RE: QSG

Chris and Joe,

I write regarding the holdback obligations of the company; and seek responses to four questions below.

As indicated in our affidavit served a few weeks ago, Article 17.08 of the Collective Agreement allows QSG to withhold an amount from the Pieceworker from their earned compensation of up to $2,000 for payment of any back charges or deficiencies. These funds are owned by the Pieceworker, not the company. Moreover, these funds are to be held in trust in a separate holdback account. Also, every month, QSG is to provide any accounting as to the holdback amounts they are currently holding in trust. Article 17.08 of the Collective Agreement provides:

> **17.08 - Holdback Account**
> (a) The Company may at its option **withhold an amount from the Pieceworker**/Subcontractor not to exceed the sum of two thousand ($2,000.00) for payment of any back charges or deficiencies. The said amount may be withheld for a period not to exceed six (6) months from the date of commencement of work by the Pieceworker/Subcontractor for the Company or three (3) months from the time that the Pieceworker/Subcontractor no longer works for the Company, whichever is the greater.
>
> (b) It is understood that any **holdback referred to in subparagraph (a) above consists of amounts owing to the Pieceworker/Subcontractor**, subject to the provisions of Article 17.06 or subparagraph (a) above. **When, for the purpose of establishing a holdback, amounts are deducted from the invoiced totals owing to Pieceworkers/Subcontractors**, written notice shall thereafter be given to the Pieceworker/Subcontractor and the Union of the amounts designated for holdback. When amounts are deducted from holdback as a result of back charges or deficiencies, written notice shall thereafter be given to the Pieceworker/Subcontractor and the Union of the amount of such deduction.
>
> (c) By no later than the 15th day of each month each Company which **maintains a holdback account for any Pieceworker/Subcontractor** covered by this Collective Agreement **shall provide a Holdback Summary Notice. The Holdback Summary Notice shall list the names of each Pieceworkers/Subcontractors for whom the Company has a holdback account; together with the balance of the holdback account as of the last day of the month**. The Holdback Summary Notice shall stipulate a final total of the holdback amounts held back by the Company for all Pieceworkers/Subcontractors.
>
> (d) There shall be no penalty for the first violation by a Company of subparagraphs (b) and (c) during the life of this Collective Agreement. If, during the life of this Collective Agreement, the Company should breach subparagraph (b) or (c) a second time they shall pay damages to the

Union of one hundred dollars ($100.00), and five hundred dollars ($500.00) for each violation thereafter. [emphasis added]

Attached at Exhibit G to the affidavit we filed is the Holdback Summary Notice prepared by QSG with respect to the Local 183 Pieceworkers as of June 30, 2023, which was sent around July 15, 2023. The total amount as of the end of June 2023 was $90,000. I anticipate the amount currently being held in trust is probably around that amount.

Please confirm:

1. why these monies were not listed on the company's asset sheet, or in the list of creditors;
2. what happened to this holdback money?;
3. were the funds ever held back into a separate account?; and,
4. does the company agree that the intent of the Collective Agreement and/or Article 17.08 is to set up a trust?

Regards,

KOSKIE MINSKY
JUSTICE MATTERS

Demetrios Yiokaris (he/him)
T: +1 416-595-2130 | F: +1 416-204-2810 | E: dyiokaris@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

APPENDIX E

From: Besant, Chris <cbesant@grllp.com>
Sent: Tuesday, September 19, 2023 1:39 PM
To: Demetrios Yiokaris <dyiokaris@kmlaw.ca>
Cc: Michael Mazzuca <Michael@RousseauMazzuca.com>; Daniel Wright <Dwright@RousseauMazzuca.com>; Graham Williamson <gwilliamson@liuna183.ca>; L. Joseph Latham (jlatham@goodmans.ca) <jlatham@goodmans.ca>
Subject: Holdback Provisions in Low Rise Tile Agreement & LiUNA Default Letters of August 16

Demetrios:

Holdback Provisions of LiUNA Low Rise Tile Installers Collective Agreement
You have been advised of QSG's position that there is no breach of the holdback provisions in the LiUNA Low Rise tile installers Collective Agreement. That will be addressed in the QSG motion materials being filed for the September 22, 2023 hearing.

Union Default Letters of August 16, 2023
We have alerted you to the damage being caused to QSG and all of its stakeholders by the letters your client sent to builder clients of QSG dated August 16, 2023.

Over $7.7 million in builder receivables are potentially impacted as a result of those letters. Not only did those letters effectively threatened the filing of liens on the builders' projects on the basis that the monthly remittance of pension payments and related items was not made on August 15, but as you know various builders also require QSG to be in good standing under the Low Rise Tile Collective Agreement with LiUNA. A number of builders have accordingly advised that they will not make any further payments to QSG unless the Union confirms that the payments and remittances have been paid. QSG's current estimate, based on advice from builders and otherwise, is that almost $4 million is being presently withheld on that basis, and the number continues to increase.

As your client is well aware, QSG is in compliance with all of its payment and remittance obligations under the Low-Rise Tile Collective Agreement with LiUNA. It pays the installers biweekly and union remittances for the prior month on the 15th of the succeeding month. It has continued paying the payments and remittances ever since it applied for CCAA protection on August 4, 2023. To make it crystal clear, LiUNA knows full well that:

1. All of the biweekly payments to installers have been made on time and are in good standing; and
2. All of the monthly remittances have all been paid to the union and are in good standing. Cheques for the remittances due August 15, 2023 were delivered to LiUNA on August 16, 2023, and the remittance cheques due September 15, 2023 were delivered to LiUNA on September 13.

On August 4, 2023, a stay of proceedings was granted to protect QSG from enforcement steps and interference with its contractual relations, absent court permission.

On August 16, 2023, without seeking the permission of the court, your client sent a form letter to over 60 builders alleging QSG was in default of its remittances and implied other amounts were in default when they were not. That letter was dated the very same day the remittances were paid to the union. After learning of this, your client did not retract this letter, nor otherwise correct the record with

those builders. LiUNA then filed an affidavit in these proceedings sworn August 17, 2023 which did not disclose to the court that default letters had been sent to over 60 builders, nor refer to the fact that the August remittances were paid the day before the affidavit was sworn. QSG only learned of the letters when builders began to contact QSG about the letters in response.

QSG has since discovering this repeatedly requested that LiUNA issue a notice to all of the builders it contacted, to confirm that QSG is in good standing with all payments and remittances. To date, the LiUNA has not done so.

Various builders have asked specifically for confirmation from the union that QSG is in good standing with its payments and remittances as a condition of paying their accounts receivables. The union has only provided this in a couple of cases. That is completely unsatisfactory, and it is shocking that the LiUNA has not corrected the record in this matter when it has been warned that QSG is being damaged by the erroneous impression created by its letters.

The stay provisions of the August 4 court order provide as follows:

> **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.

That provision was carried forward into the subsequent interim orders on August 18 and August 23, and a similar version appears in the Initial CCAA Order of August 25, 2023 and the ARIO of September 5, 2023. It appears that your client is in breach of this order. If you disagree, kindly explain forthwith why your client is not in breach of this order.

LiUNA lost a representation vote to Carpenters Union Local 27 earlier this year over the right to serve as bargaining agent for QSG's hardwood and carpet installers. LiUNA responded by trying to lock QSG out of low rise tile sites by abandoning the unrelated collective agreement with QSG in respect of the low rise tile installers. QSG had to bring an application to the Ontario Labour Relations Board alleging an unfair labour practice as a result, which was settled by an agreement that preserves QSG's entitlement to access building sites which require LiUNA labour until May 1, 2024.

LiUNA appears to continuing this pattern of behaviour with the default letters it sent to builders despite the CCAA stay, and its subsequent failure to correct the record despite the fact that it learned almost immediately that the remittances were paid the same day it sent the letter, and that it knows that QSG has made all of its payments and remittances. QSG is concerned that LiUNA may be trying to delay setting the record straight with builders on the payment and remittances point as negotiating leverage for other matters, including its request concerning the establishment of a holdback fund. Negotiating by interfering in QSG's accounts receivables collections is not an option open to LiUNA. LiUNA's conduct may not only be a breach of the stay but a breach of the obligation of good faith.

All rights and remedies in respect of same are hereby reserved.

With regards,

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

From: Demetrios Yiokaris [mailto:dyiokaris@kmlaw.ca]
Sent: Sunday, September 17, 2023 5:28 PM
To: Besant, Chris; L. Joseph Latham (jlatham@goodmans.ca)
Cc: Michael Mazzuca; Daniel Wright; Graham Williamson
Subject: RE: QSG

Chris and Joe,

I write regarding the holdback obligations of the company; and seek responses to four questions below.

As indicated in our affidavit served a few weeks ago, Article 17.08 of the Collective Agreement allows QSG to withhold an amount from the Pieceworker from their earned compensation of up to $2,000 for payment of any back charges or deficiencies. These funds are owned by the Pieceworker, not the company. Moreover, these funds are to be held in trust in a separate holdback account. Also, every month, QSG is to provide any accounting as to the holdback amounts they are currently holding in trust. Article 17.08 of the Collective Agreement provides:

> **17.08 - Holdback Account**
> (a) The Company may at its option **withhold an amount from the Pieceworker**/Subcontractor not to exceed the sum of two thousand ($2,000.00) for payment of any back charges or deficiencies. The said amount may be withheld for a period not to exceed six (6) months from the date of commencement of work by the Pieceworker/Subcontractor for the Company or three (3) months from the time that the Pieceworker/Subcontractor no longer works for the Company, whichever is the greater.
>
> (b) It is understood that any **holdback referred to in subparagraph (a) above consists of amounts owing to the Pieceworker/Subcontractor**, subject to the provisions of Article 17.06 or subparagraph (a) above. **When, for the purpose of establishing a holdback, amounts are deducted from the invoiced totals owing to Pieceworkers/Subcontractors**, written notice shall

thereafter be given to the Pieceworker/Subcontractor and the Union of the amounts designated for holdback. When amounts are deducted from holdback as a result of back charges or deficiencies, written notice shall thereafter be given to the Pieceworker/Subcontractor and the Union of the amount of such deduction.

(c) By no later than the 15th day of each month each Company which **maintains a holdback account for any Pieceworker/Subcontractor** covered by this Collective Agreement **shall provide a Holdback Summary Notice. The Holdback Summary Notice shall list the names of each Pieceworkers/Subcontractors for whom the Company has a holdback account; together with the balance of the holdback account as of the last day of the month**. The Holdback Summary Notice shall stipulate a final total of the holdback amounts held back by the Company for all Pieceworkers/Subcontractors.

(d) There shall be no penalty for the first violation by a Company of subparagraphs (b) and (c) during the life of this Collective Agreement. If, during the life of this Collective Agreement, the Company should breach subparagraph (b) or (c) a second time they shall pay damages to the Union of one hundred dollars ($100.00), and five hundred dollars ($500.00) for each violation thereafter. [emphasis added]

Attached at Exhibit G to the affidavit we filed is the Holdback Summary Notice prepared by QSG with respect to the Local 183 Pieceworkers as of June 30, 2023, which was sent around July 15, 2023. The total amount as of the end of June 2023 was $90,000. I anticipate the amount currently being held in trust is probably around that amount.

Please confirm:

a. why these monies were not listed on the company's asset sheet, or in the list of creditors;
b. what happened to this holdback money?;
c. were the funds ever held back into a separate account?; and,
d. does the company agree that the intent of the Collective Agreement and/or Article 17.08 is to set up a trust?

Regards,

KOSKIE MINSKY
JUSTICE MATTERS

Demetrios Yiokaris (he/him)
T: +1 416-595-2130 | F: +1 416-204-2810 | E: dyiokaris@kmlaw.ca
Koskie Minsky LLP, 20 Queen Street West, Suite 900, Toronto, ON. M5H 3R3
kmlaw.ca

APPENDIX F

483

Demetrios Yiokaris

From: Graham Williamson <gwilliamson@liuna183.ca>
Sent: September 16, 2023 7:54 AM
To: ross@restile.ca
Cc: Janusz Argasinski; Coralea Daigle; Maria DiMuzio; Luis Camara
Subject: QSG

Categories: Red Category

Ross

I can now confirm that QSG sent in their August Tile remittance reports and cheques on time. We are waiting for the cheques to clear, but given the CCAA proceedings are moderately confident that they will do so. This is in addition to the late remittances for July having been received and payments cleared.

I have not heard any issues about unpaid wages or unpaid piecework invoices. However, there will be an issue about the piecework holdback accounts – I am told that QSG and their CCAA/Bankruptcy monitor are saying that the money was not held in trust and was just in their general accounts. It seems that they want to argue that those amounts should be wiped out along with the $20 million they owe to trade suppliers and contractors. We may really need to re-examine the concept of the holdback or how it is dealt with in our collective agreement.

If you are getting inquiries from builders or RTCA members about whether QSG is up to date on remittances you can advise them of the above, and encourage them to contact me if they need further information.

Cheers
graham

Graham Williamson
General Counsel | LIUNA Local 183
A Certified Specialist in Labour Law

M: 416.573.4652 | T: 416.241.1183 | F: 416.241.7607
1263 Wilson Ave., 3rd Floor West, Toronto ON M3M 3G3 | www.liuna183.ca

Graham Williamson
General Counsel | LIUNA Local 183
A Certified Specialist in Labour Law

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