

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

B E T W E E N:

**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 (THE "APPLICANTS")**

MOTION RECORD

(CCAA Applicants Motion for Stay Extension and ARIO returnable Sept 5, 2023)

September 2, 2023

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Schedule "A" – Other Applicants**A.1 Other Applicants - QSG Opcos (in addition to QRCL)**

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

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

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

ONTARIO
SUPERIOR COURT OF JUSTICE
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**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
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**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
QUALITY RUGS OF CANADA LIMITED AND THE OTHER COMPANIES LISTED IN
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MOTION RECORD INDEX

TAB	DESCRIPTION
1.	Notice of Motion of the Applicants, dated September 1, 2023
2.	Affidavit of John A. Pacione, affirmed September 2, 2023
3.	Draft ARIO dated September 5, 2023
4	Redline of Draft ARIO vs Initial CCAA Order of August 25, 2023

TAB 1

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

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

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

**NOTICE OF MOTION
(Re: Comeback Hearing Returnable September 5, 2023)**

Quality Rugs of Canada Limited (Variously the “**Company**” and “**QRCL**”) and the applicants listed in Schedule “A” (collectively with the Company, the “**QSG Group**”) (collectively, the “**Applicants**”) will make a motion before the Honourable Justice Penny of the Ontario Superior Court of Justice (Commercial List) on Tuesday, September 5, 2023 at 10:00 a.m., or as soon after that time as the Motion can be heard, via Zoom videoconference.

PROPOSED METHOD OF HEARING: The Motion is to be heard

In writing under subrule 37.12.1(1);

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

In person;

By telephone conference;

By video conference.

at the following location:

<https://ca01web.zoom.us/j/65400327305?pwd=WC91RjNENjNnZlQ2NHpvbDlzaUNldz09>
05 September 2023 10:00 AM (Eastern Standard Time) Meeting ID: 654 0032 7305 Passcode: 082269

THE MOTION IS FOR:

1. An Order (the “**ARIO**”) substantially in the form attached at Tab 2 of the Motion Record of the Applicants dated August 31, 2023 plus such ancillary orders as may be required, *inter alia*:
 - a) extending the stay of proceedings until and including October 31, 2023;
 - b) approving an increase in the borrowing limit by the QSG Group under the DIP Facility Agreement from \$3.5 Million to \$7 Million;
 - c) Amending the Administration, Directors, Financials Advisor’s, and Lien Charges granted under the Initial CCAA Order, to exclude their application to the Borrowers Account as defined in the DIP Term Sheet;
 - d) Discharging the Interim Lender’s Charge;
 - e) Replacing the Lien Notice provisions in the Initial CCAA order with a Lien Regularization Order designed to provide a more comprehensive lien notice structure to protect lienholders and builders;
 - f) dismissing the Waygar CCAA Application, on consent;
 - g) adjourning on consent the Waygar Receivership Application sine die or to a date to be fixed by the Commercial List Office;
 - h) adjourning any other issues to a date to be set by this Honourable Court
2. Such further and other relief as may be required to advance the QSG Group’s restructuring and that this Honourable Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

1. On August 25, 2023, the Honourable Justice Penny granted an initial CCAA Order in this matter (variously herein, the “Initial Order” and the “Initial CCAA Order”), which, among other things:
 - a) declared that the Applicants are parties to which the CCAA applies;
 - b) granted the Stay of Proceedings until and including September 5, 2023;

- c) appointed RSM Canada Limited (“**RSM**”) as the Monitor in these CCAA Proceedings;
and
- d) approved the DIP Facility Agreement, pursuant to which the QSG Group was permitted to draw an initial advance of up to \$3.5 million during the Initial Stay Period;

Extension of the Stay of Proceedings

- 2. The Applicants seek an extension of the Stay of Proceedings until and including October 31, 2023. An extension of the Stay of Proceedings is required to allow the QSG Group to:
 - a) finalize the definitive documentation with the purchaser, Ironbridge Equity Partners Management Limited (“Ironbridge”), for the purchase of its assets and business as contemplated in the Letter of Intent signed between QSG and Ironbridge on August 25, 2023 “Sale LOI”;
 - b) seek court approval and a vesting order in respect of that transaction, which is contemplated to be sought on or about October 5, 2023 as required by the Sale LOI;
 - c) close that transaction by or before 60 days from August 25, 2023, as contemplated by the Sale LOI;
 - d) continue to operate in the ordinary course pending the completion of that transaction, and
 - e) take continuing steps to stabilize the Group’s business and to endeavour to address stakeholders concerns;
- 3. The QSG Group has acted, and continues to act, in good faith and with due diligence during the course of these CCAA Proceedings;
- 4. The Monitor supports the proposed extension to the Stay of Proceedings;

Increased DIP Financing

- 5. Under the DIP Term Sheet with Ironbridge, QSG was entitled to borrow up to \$5 million until Sale Approval and thereafter the borrowing limit increases to \$7 million;

6. The Initial Order authorized \$3.5 million in DIP Financing of the initial \$5 million committed in the DIP Term Sheet;
7. The QSG Group seeks an increase in the authorizing borrowing under the the DIP Facility Agreement from \$3.5 Million to the full \$7 million available under the terms and Conditions set out in the Dip Term Sheet;
8. The increase is necessary to provide the QSG Group with interim financing sufficient to meet its needs during the CCAA extension period to October 31, 2023 in accordance with its cash flow previously filed in connection with the DIP Term Sheet;

Amendment to CCAA Charges

9. The DIP Term Sheet requires the Borrower's Account into which the DIP Lender makes advances to be free of the Charges in favour of the professionals and the directors and officers created by the Initial Order, and the parties protected by those Charges have not objected;

Discharge of the Interim Lender's Charge In favour of Waygar

10. The \$1.5 million in interim financing provided by Waygar further to the August 4, 2023 Interim Order in these proceedings (as extended by the Orders of August 18, 2023 and August 23, 2023) was secured by a charge granted under the August 4 Order. On September 1, 2023, it was repaid on terms acceded to by Waygar, QSG, and Ironbridge out of the first draw under the DIP Loan from Ironbridge, and as such, the charge granted to secure the Waygar interim financing should be discharged;

Amending the Lien Notice Provisions in the Initial CCAA order to provide a more complete structure to protect lienholders and builders;

11. Feedback from the stakeholders concerning the Lien Notice provisions of the Initial CCAA Orders (paragraphs 18-21 thereof) has led the Applicants to proceed to develop, with the assistance of the Monitor, refinements to the lien notice system set out in those paragraphs modelled on principles from similar orders made in the Comstock (2013) and Carillion (2018)

CCAA proceedings, to better protect both builders and lienholders. The revisions will be proposed at the Comeback Hearing in the form of as a standalone Lien Regularization Order (“LRO”) which would replace the original lien notice provisions in the Initial CCAA Order. However, it is anticipated affected stakeholders will need time to consider the proposal and, as such, a date will be requested for the court to hear submissions about making of the proposed LRO, and in the meantime, the ARIO sought would continue the existing Lien Notice system in the Initial CCAA Order.

Dismissal of the Waygar CCAA Application and Adjournment of its Receivership Application

12. As Waygar consented on August 25, 2023 to QSG’s CCAA Application proceeding, Waygar’s CCAA Application is superfluous and hence Waygar has consented to its dismissal.
13. Waygar’s Receivership application is requested to be adjourned *sine die* (or to a date to be fixed by the Commercial List) as it remains a remedy that Waygar may request in the event that the proposed sale transaction with Ironbridge does not close within 60 days of August 25, 2023, or is otherwise terminated before then.

Adjournment of Other Stakeholder Requests

14. There were only 5 business days between the Initial CCAA Order and the Comeback Hearing to (i) implement the CCAA order, (ii) pay out the Waygar interim financing and implement the DIP Financing, (iii) socialize the fact of the CCAA filing and its implications amongst key constituencies, and (iv) for Stakeholder concerns to materialize and be discussed. As such, additional time to negotiate the Stakeholder concerns and, if necessary, additional time for interested parties to make submissions about same, would assist the process. Hence it is proposed to adjourn any other issues to a date to be set by this Honourable Court, unless a stakeholder persuades the Court that their issue is of such urgency that it absolutely must be dealt with on September 5, 2023.

Other Grounds

15. The provisions of the CCAA and the inherent and equitable jurisdiction of this Honourable Court;
16. Rules 1.04, 1.05, 2.03, 3.02, 16 and 37 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended; and
17. Such further and other grounds as counsel may advise and this Court may permit.

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

1. The Affidavits of John Pacione, sworn in support of QSG's CCAA Application on August 3, 2023 and August 17, 2023, and the Exhibits attached thereto;
2. The Affidavit of John Pacione to be sworn in support of this CCAA Extension Motion and the Exhibits attached thereto;
3. The Pre-Filing Reports of the Proposed Monitor filed in connection with QSG's CCAA Application, and the Appendices attached thereto;
4. The First Report of the Monitor dated September 1, 2023, and the Appendices attached thereto;
and
5. Such further and other documentary evidence as counsel may advise and this Court may permit.

September 1, 2023

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TO: THE SERVICE LIST

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

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

Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

PROCEEDING COMMENCED AT
TORONTO

NOTICE OF MOTION

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TAB 2

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
IN BANKRUPTCY AND INSOLVENCY
IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

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

AFFIDAVIT OF JOHN A. PACIONE
(Affirmed September 2, 2023)

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

1. I am a Co-Chief Executive Officer of Quality Rugs of Canada Limited (variously referred to herein as "**QRCL**" and the "**Company**"), which with various affiliates does business as the Quality Sterling Group of Companies (variously referred to below as the "**QSG Group**" or the "**Group**" or the "**Companies**"). As such, I have knowledge of the matters to which I depose in this supplemental affidavit, save and except for such facts or matters which are stated to be based on information and belief, and where so stated, I believe same to be true. Defined terms herein have the same meaning as in my previous affidavits except where specified herein.

2. This affidavit is sworn in support of the Companies' motion for an Amended and Restated Initial CCAA Order ("**ARIO**"), returnable September 5, 2023 and related relief. The Applicants are seeking, *inter alia*,
 - (a) An extension of the stay of proceedings to October 31, 2023;
 - (b) Approval of additional DIP Financing;
 - (c) An amendment to the Administration, Directors, Financials Advisor's, and Lien Charges granted under the Initial CCAA Order;

- (d) A discharge of the Interim Lender's Charge;
- (e) A replacement of the Lien Notice provisions in the Initial CCAA order with a Lien Regularization Order;
- (f) A dismissal of Waygar's CCAA Application, on consent;
- (g) An adjournment of Waygar's Receivership Application on consent, *sine die*, or to a date to be fixed by the Commercial List Office; and
- (h) An adjournment of the consideration of any other Stakeholder issues to a date to be set by this Honourable Court.

EXTENSION OF STAY OF PROCEEDINGS

- 3. The Companies are seeking an extension of CCAA protection to October 31, 2023.
- 4. The QSG Group has acted and continued to act in good faith and with due diligence. In this regard, since the Filing Date, the QSG Group has undertaken the following:
 - (a) Held a townhall meeting for the employees with a representative of Ironbridge on August 29, 2023 to explain the CCAA proceedings and answer any questions in respect of same;
 - (b) Established operating and communication procedures with the Monitor and Ironbridge as the DIP Lender to comply with the approval and other requirements of the Initial CCAA Order and the DIP Term Sheet (also referred to below as the DIP "Facility Agreement") and to provide for smooth operational practices;
 - (c) Communicated with various secured and unsecured creditors, including suppliers and customers;
 - (d) Arranged the unblocking of its receipts account with Waygar and its bank so that the DIP Loan could be advanced pursuant to the DIP Loan Facility;
 - (e) requested, arranged the mechanics of, and received a drawdown of the DIP Facility in the amount of \$3,000,000 under the DIP Term Sheet (also referred from time to time to below as the "DIP Facility Agreement") and in accordance with the Cash Flow appended to the Dip Term Sheet ;
 - (f) Arranged and effected as required the payout of the \$1.5 million in Interim Financing provided by Waygar between August 4, 2023 and August 25, 2023;
 - (g) Communicated with certain suppliers, the Monitor, QSG Counsel and the DIP Lender regarding the treatment of supplier liens registered between the Interim Order on August 4, 2023 and the Initial CCAA Order on August 25, 2023;

- (h) Communicated with certain builders, the Monitor, Applicants' Counsel, and the DIP Lender re builders facing critical installation needs and builders affected by supplier liens, in order to develop operational resolution plans for those situations;
 - (i) Worked with Applicants Counsel, the Monitor, the DIP Lender in the development of the proposed Lien Regularization Order discussed below to address stakeholder feedback about the existing Lien Notice provisions in the Initial CCAA Order;
 - (j) managed cash flow and made disbursements in accordance with the Initial Order and the DIP Term Sheet, in consultation with the Monitor and the DIP Lender; and
 - (k) continued discussions with Ironbridge regarding the proposed going concern transaction.
5. The Letter of Intent signed between QSG and Ironbridge on August 25, 2023 setting out proposed terms for the purchase by Ironbridge of the business and assets of QSG (the "Sale LOI") contemplates the completion of definitive documentation and an Approval and Vesting Order ("AVO") being obtained within 30 days of the Comeback hearing on September 5, 2023, and a closing ten business days after the AVO is obtained. Hence QSG anticipates returning to court on or before October 5, 2023 to seek the AVO.
6. An extension of the Stay of Proceedings will allow the QSG Group to:
- (a) Seek the Lien Regularization Order discussed below, and allow for a further hearing to allow for Stakeholders to make any remaining submissions concerning the Initial CCAA Order that are not resolved before that date (if any);
 - (b) finalize the Asset Purchase Agreement and related definitive documentation with Ironbridge as contemplated in the Sale LOI;
 - (c) Seek the AVO in respect of that transaction on or about October 5, 2023 as required by the Sale LOI;
 - (d) Close that transaction by or before 60 days from August 25, 2023, as contemplated by the Sale LOI;
 - (e) continue to operate in the ordinary course pending the completion of that transaction; and
 - (f) continue to take steps to stabilize the Group's business and to endeavour to address stakeholders concerns.

7. The Cash Flow Forecast attached to the DIP Term Sheet indicates that the QSG Group has sufficient cash for the requested stay extension period (i.e. to October 31, 2023).
8. The Monitor supports the proposed extension to the Stay of Proceedings as set out in the First Report of RSM, dated September 1, 2023, which is also filed in support of this CCAA Extension motion.

APPROVAL OF ADDITIONAL DIP FINANCING

9. Under the DIP Term Sheet with Ironbridge, QSG is entitled to borrow up to \$5 million until the sale with Ironbridge is finalized and approved, and thereafter the borrowing limit under the DIP Term Sheet increases to \$7 million.
10. The Initial Order approved a debtor-in-possession facility (the "**DIP Facility**") from Ironbridge Equity Partners IV LP and Ironbridge Equity Partners (International) IV, LP (collectively, the "**DIP Lender**") pursuant to which the DIP Lender would provide an initial amount of up to \$3,500,000 under the DIP Term Sheet (the "**Initial Availability Advance**") in accordance with the Cash Flow Forecast attached to the DIP Term Sheet.
11. QSG requires access to DIP funding of up to \$5,000,000 as permitted the DIP Term Sheet (aka the DIP Facility Agreement), prior to the execution of definitive documentation further to the Sale LOI and the issue of the AVO, and an additional \$2,000,000 thereafter pending the closing of the sale transaction.
12. The Monitor has recommended an increase in the DIP Lender's Charge from \$3.5 million to \$7 million.
13. This increase is necessary to provide the QSG Group with interim financing sufficient to meet its needs during the CCAA extension period to October 31.

AMENDMENT TO THE COURT ORDERED CHARGES

14. In respect of the Administration Charge, Directors' Charge, Financial Advisor's Charge and Lien charge, the definition of Property in the proposed ARIO is being amended to exclude the "Borrower's Account", which is defined in the DIP Term Sheet as the account of the CCAA Applicants to which the DIP Lender will be advancing funds under the DIP Facility Agreement..
15. In respect of the DIP Lender's Charge, the definition of Property is to include the Borrower's Account,
16. This amendment is to give effect to the DIP Facility Agreement to ensure that the funds in the Borrowers Account are not encumbered by the charges granted in favour of the professionals and directors and officers. In essence, the professionals are protected by a charge over the assets of the CCAA Applicants except for cash in that account advanced by the DIP Lender. None of the professionals, directors and officers to whom these charges relate has objected to this proposed amendment.

DISCHARGE OF INTERIM LENDER'S CHARGE

17. Pursuant to the August 4, 2023 Order, Waygar was granted the Interim Lender's Charge for borrowings against the Waygar Interim Facility made on or after August 4, 2023 pursuant to the Interim Order made August 4, 2023 (which was continued by Orders made August 18, 2023 and August 23, 2023)
18. On September 1, 2023, and pursuant to a payout statement dated August 28, 2023, QSG paid out the Waygar Interim Facility on terms acceded to by Waygar, QSG, and Ironbridge. The Monitor has filed with the Court a certificate dated September 1, 2023 (the "**Monitor's Certificate**") to this effect. A copy of the Monitor's Certificate is attached as Appendix I to the Monitor's First Report.

AMENDMENT OF LIEN NOTICE PROVISIONS IN THE INITIAL CCAA

19. Since the Initial Order, QSG Group and the Monitor have received multiple communications from suppliers of the QSG Group asserting Lien Claims pursuant to the Initial Order and/or objecting to the process, and from builders and developers affected by those liens.
20. The Monitor and the QSG Group, with their respective counsel, are of the view that a Lien Regularization Order (consistent with the approach which was taken in the Comstock and Carillion CCAA matters approved by this Court in 2013 and 2018) would best address the concerns of the affected parties.
21. Waygar and Ironbridge are generally supportive of this approach.
22. As a result the QSG Applicants in consultation with the Monitor are developing a form of Lien Regularization Order tailored to the needs of this proceeding (the "LRO), which QSG proposes to be served on the Stakeholders before the hearing, with a view to setting a date at the Comeback hearing for submissions on the proposed form of LRO. The proposed form of ARIO continues the existing Lien Notice provisions in the Initial CCAA Order which are intended to remain in place until the Court determines whether they should be replaced by the LRO.
23. The LRO system would continue the concept that liens are not registered against title to developer projects, but rather take effect through a notice given to QSG and the Monitor, and a charge over QSG assets to secure the liens created by court order. However, improved language consistent with Carillion and Comstock will be included in the LRO to better replicate the rights of lien holders against builder lands without affecting title. That is intended to accommodate both builder concerns to protect clean title to their projects while accommodating supplier concerns that the lien notice system reflect their rights under provincial law.

24. Some construction liens were registered against the title to projects before the lien notice system was instituted in the Initial Order on August 25, 2023. Most of those liens have not been perfected, and some have also been notified under the Lien Notice system instituted on August 25, 2023. QSG and the Monitor are working with builders affected by those situations to address possible interim solutions. At least one such small lien has been bonded off. The proposed LRO would regularize those liens so that they would become liens registered under the LRO and removed from title to projects.
25. Regularizing the lien notification system in a way that protects builders and suppliers, and regularizes pre August 25, 2023 lien registrations so that they are protected without impairing builder title, is a priority objective of this CCAA process, and hence the process would benefit from the establishment of the proposed LRO regime as soon as possible.

DISMISSAL AND ADJOURNMENT OF WAYGAR PROCEEDINGS

26. On August 25, 2023, Waygar consented to the QSG's CCAA Application. As a result, its CCAA Application is superfluous.
27. Accordingly, Waygar has consented to the dismissal of the Waygar CCAA Application.
28. Waygar has advised that it wishes to retain the ability to proceed with its Receivership Application if the proposed sale with Ironbridge does not close within 60 days of August 25, 2023 or is otherwise terminated before then, and QSG has agreed to that. As such, it is proposed that the Waygar Receivership Application be adjourned *sine die* or to a date to be fixed by the Commercial List Office.

HALIFAX WAREHOUSE ISSUE

29. Prior to the first interim Stay Order, by means not yet clear, a company associated with an employee of QSG has ended up interposed as sub-landlord of QSG's Halifax

Warehouse. In or about May, 2023, that sub-landlord purported to lock QSG out of the Halifax Warehouse and to levy distraint against the relatively modest amount of inventory on the premises, as well as an associated tow motor. QSG has objected to the legality of the distraint. QSG asserts the distraint is not complete and is now stayed. QSG intends to seek an order in the CCAA proceeding permitting QSG to move the inventory and associated tow lift equipment to another warehouse so it can be used in QSG's operations, and potentially for related relief. That will not be sought at the Comeback Hearing as the matter is not yet urgent and instead will be brought back before this court on notice to the affected parties on another occasion.

AGREEMENT WITH WAYGAR TO FACILITATE CCAA FILING

30. On August 25, 2023, to secure Waygar's consent to the QSG CCAA Application and going ahead, Waygar and QSG entered into a sideletter that provided, amongst others things, that:
- (a) Waygar consented to the QSG CCAA Application going ahead on August 25th, and to the Initial CCAA Order being made in the form presented by QSG to the Court on that date, and QSG consented to Waygar's Receivership Application proceeding in the event that the Ironbridge transaction is not closed within 60 days of the Initial Order or is otherwise terminated earlier than that;
 - (b) Consistent with Waygar's security over the assets, QSG would assign any entitlement to proceeds of the HST refund on the Financial Advisor's Success Fee to Waygar (that asset is not assignable to the Purchaser);
 - (c) The QSG Applicants as well as QSG's principals (the Co-CEOs John Pacione and J.D Pacione, and the Founder Joseph R Pacione, collectively "the Paciones") would release Waygar from any claims arising from the allegations in the August 3, 2023 and August 17, 2023 affidavits of John Pacione to the effect that (i) Waygar breached the accommodation agreement dated February 14, 2023 (the "CAAA"), or (ii) acted improperly or in bad faith to refuse to advance funding to the Companies thereafter, or (iii) acted improperly or in bad faith in applying the approximately \$6 million in funds in the receipts account to its loan on August 3, 2023, or (iv) acted improperly in bringing its CCAA Application. Specifically claims arising from the allegations in paragraphs 66-69 and 95-111 of the August 3 Affidavit, and paragraphs 10 and 23-24 of the August 17,

2023 affidavit, and similar claims arising in the QSG affidavits filed in the CCAA proceedings to that date were released;

- (d) QSG confirmed that the proposed sale to Ironbridge does not include any side agreement with the Paciones providing compensation for receivables recovery, nor any compensation to the Paciones for their equity in QSG, and that their compensation for participation in the new company would be based only on growing the value of its business;
 - (e) QSG acknowledged that The Fuller Landau Group Inc. (“Fuller”) would continue in an external monitoring role for Waygar at Waygar’s expense and that Fuller would be provided with updates and information as requested;
 - (f) QSG confirmed it would continue supporting approval of the Alvarez & Marsal Canada Securities ULC engagement letter and the granting of the charge sought to secure its success fee.
31. QSG was of the view that obtaining CCAA protection and DIP financing made it in the best interests of the company and its stakeholders to enter into this agreement. The Sideletter contains a confidentiality clause and as such a copy of the Sideletter can be filed separately under seal should this Honourable Court consider it appropriate. The terms outlined above are the material terms of significance to stakeholders, and Waygar has consented to disclosure of the summary in this affidavit.

ADJOURNMENT OF OTHER STAKEHOLDER REQUESTS

32. A total of five (5) business days were available between the Initial Order and the Comeback Hearing to (i) implement the CCAA order, (ii) pay out the Waygar interim financing and implement the DIP Financing, (iii) socialize the fact of the CCAA filing and its implications amongst key constituencies, and (iv) for Stakeholder concerns to materialize and be discussed.
33. Additional time is required to address, negotiate, stakeholder concerns about the Initial CCAA Order, and for stakeholders to consider the proposed LRO. As such the establishment for a date for a hearing to consider the LRO and any outstanding concerns not resolved in the interim would be in the interests of the QSG Applicants and its stakeholders.

AFFIRMED by John Pacione at the City of Toronto, in the Province of Ontario, before me at the City of Toronto, in the Province of Ontario, on September 2, 2023 in accordance with O. Reg. 431/20, Administering Oath or Declaration Remotely



Commissioner for Taking Affidavits
(or as may be)

DocuSigned by:
John Pacione
D59AF83ECDD04EA...

JOHN PACIONE

~~Myram Sarkis, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law,
Expires April 14, 2025.~~

TAB 3

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 ● , 2023 and the Exhibits thereto (the

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

NO EXERCISE OF RIGHTS OR REMEDIES

15. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicants, the Protected Parties, the Monitor, or the Financial Advisor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicants and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

16. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right,

contract, agreement, licence or permit in favour of or held by the Applicants or the Protected Parties, except with the written consent of the Applicants and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

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

TREATMENT OF LIEN CLAIMS

18. THIS COURT ORDERS that, without limiting the generality of paragraphs 14 to 17 hereof, the rights of any person who has supplied services and/or materials to the Applicants to preserve and perfect a lien under the *Construction Act* (Ontario) or any applicable provincial equivalent (the "Provincial Lien Legislation") in respect of a project or improvement to which one of the Applicants is a contracting party (the "Lien Claims") be and are hereby stayed and any person seeking to preserve, perfect or otherwise enforce such a claim shall be required to comply with the process and seek the rights and remedies set out in paragraphs 18 to 21 hereof subject to further Order of the Court.

19. THIS COURT ORDERS that any person who wishes to assert a Lien Claim (a "Lien Claimant") shall serve a notice of such Lien Claim setting out the amount and particulars thereof

(including without limitation the improvement in question) to (a) the Monitor at arif.dhanani@rsmcanada.com, with a copy Goodmans LLP, counsel to the Monitor at: jlatham@goodmans.ca, and (b) the Applicants, care of cbesant@grllp.com, in each case within the timeframes prescribed by the applicable Provincial Lien Legislation (a "Lien Notice") or such other time frame as may be ordered by the Court. Upon delivering such Notices of Lien, the Lien Claims will be considered preserved and perfected and no further steps need be taken by the Lien Claimant.

20. THIS COURT ORDERS that, upon serving a Lien Notice, 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.

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 Borrowers 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 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#248820)

Email: cbesant@grllp.com
Tel: (416) 865 4022

Lawyer for the Applicants

TAB 4

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE)	FRIDAY <u>TUESDAY</u> , THE 25 <u>5</u> TH
MR JUSTICE PENNY)	DAY OF AUGUST <u>SEPTEMBER</u> , 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 ~~APPLICATION~~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 ●, 2023 and the Exhibits thereto \(the “Second Pacione Affidavit”\)](#), 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 [Application Motion](#) and the [Application Motion](#) Record and the Supplementary [Application Motion](#) Record is hereby abridged and validated so that this [Application 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. ~~[intentionally deleted]~~. 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.

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

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

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements; and
- (b) the fees and disbursements of any Assistants retained or employed by the Applicants in respect of these proceedings, at their standard rates and charges.

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

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of

insurance (including directors and officers insurance), maintenance and security services; and

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

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

(a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;

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

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

9. THIS COURT ORDERS that until a real property lease is disclaimed or resiliated in accordance with the CCAA [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 4th, 2023; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

RESTRUCTURING

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

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

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

12. THIS COURT ORDERS that the Applicants shall provide each of the relevant landlords with notice of the Applicants' intention to remove any fixtures from any leased premises at least

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

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

NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY

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

NO EXERCISE OF RIGHTS OR REMEDIES

15. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicants, the Protected Parties, the Monitor, or the Financial Advisor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicants and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

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

CONTINUATION OF SERVICES

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

as may be agreed upon by the supplier or service provider and each of the Applicants and the Monitor, or as may be ordered by this Court.

TREATMENT OF LIEN CLAIMS

18. THIS COURT ORDERS that, without limiting the generality of paragraphs 14 to 17 hereof, the rights of any person who has supplied services and/or materials to the Applicants to preserve and perfect a lien under the *Construction Act* (Ontario) or any applicable provincial equivalent (the "Provincial Lien Legislation") in respect of a project or improvement to which one of the Applicants is a contracting party (the "Lien Claims") be and are hereby stayed and any person seeking to preserve, perfect or otherwise enforce such a claim shall be required to comply with the process and seek the rights and remedies set out in paragraphs 18 to 21 hereof subject to further Order of the Court.

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

20. THIS COURT ORDERS that, upon serving a Lien Notice, [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.

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 Borrowers 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) ~~intentionally deleted~~; advise the Applicants in their development of the Plan and any amendments to the Plan;
- (g) ~~intentionally deleted~~; 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 ~~\$3,500,000~~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 \$~~3,500,000~~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 ~~(a) for any Person who is a "secured creditor" as defined in the CCAA that has not been served with the Notice of Application for this Order, and (b)~~ for any claims of any person against the Applicants for amounts owing for services rendered and/or materials supplied that have priority over Encumbrances by statute.

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

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

49. ~~50.~~ THIS COURT ORDERS that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "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. ~~51.~~ THIS COURT ORDERS that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicants' interest in such real property leases.

SERVICE AND NOTICE

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

51. ~~53.~~ THIS COURT ORDERS that the Monitor shall (i) without delay, publish in The Globe and Mail (National Edition) a notice containing the information prescribed under the CCAA, (ii) within five days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Applicants of more than \$1000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

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

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

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

GENERAL

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

56. ~~58.~~ THIS COURT ORDERS ~~that nothing herein impacts or detracts from the provisions of the Order of this Court and the Interim Lender’s Charge in favour of Waygar made on~~ pursuant to ~~the~~ August 4, 2023 ~~in these proceedings and in the Waygar application (the “August 4 Order”); provided, however, that upon~~ Order is fully discharged and no longer enforceable as the

~~filing~~ Monitor has filed with this Court ~~of a certificate of the Monitor,~~ confirming that the Interim Financing provided by Waygar pursuant to the August 4 Order ~~has been~~ was paid in full net of the amount of \$707,000, ~~the Interim Lender's Charge in favour of Waygar in the August 4 Order shall be finally discharged and no longer enforceable.~~

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

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

59. ~~61.~~ THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

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

61. ~~63.~~ THIS COURT ORDERS that any interested party (including the Applicants and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice

to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

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

Schedule “A” – Other Applicants**A.1 QSG Opcos (in addition to QRCL)**

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

A.2 Holding Companies

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

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

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

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Document comparison by Workshare Compare on Friday, September 1, 2023 4:50:43 PM

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Document 1 ID	PowerDocs://GOODMANS/7406884/1
Description	GOODMANS-#7406884-v1-CCAA_Amended_and_Restated_Initial_Order_-_September_5,_2023
Document 2 ID	PowerDocs://GOODMANS/7406884/3
Description	GOODMANS-#7406884-v3-CCAA_Amended_and_Restated_Initial_Order_-_September_5,_2023
Rendering set	Standard

Legend:	
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	Format change
	Moved deletion
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
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Insertions	55
Deletions	48
Moved from	2
Moved to	2
Style changes	0
Format changes	0
Total changes	107

**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"**

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

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

PROCEEDING COMMENCED AT
TORONTO

AFFIDAVIT OF JOHN A. PACIONE

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Lawyers for the Applicant

RCP-E 4C (May 1, 2016)

**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"**

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

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

PROCEEDING COMMENCED AT
TORONTO

MOTION RECORD

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RCP-E 4C (May 1, 2016)