

Court File No.:

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF QUALITY RUGS CANADA LTD., TIMELINE FLOORS INC., ONTARIO
FLOORING LTD., WESTON HARDWOOD DESIGN CENTRE INC. AND
MALVERN CONTRACT INTERIORS LIMITED**

Applicants

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

August 3, 2023

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I. INTRODUCTION

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

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

Purpose of Report

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

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

Terms of Reference

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

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

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

RSM’s Qualifications to Act as Monitor

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

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

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

II. BACKGROUND

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

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

III. QSG CASH FLOW FORECAST

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

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

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

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

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

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

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

IV. FULLER LANDAU LLP CASH FLOW

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

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

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

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

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

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

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

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

V. DIP FINANCING

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

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

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

VI. PRE-FILING SISF AND LETTER OF INTENT

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

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

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

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

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

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

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

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

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

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

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

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

VII. STATEMENT OF ESTIMATED REALIZATIONS

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

VIII. COURT ORDERED CHARGES

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

Administration Charge

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

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

DIP Lender's Charge

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

Lien Charge

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

Directors' and Officers' Charge

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

Financial Advisor's Charge

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

IX. CONCLUSIONS AND RECOMMENDATIONS

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

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

RSM CANADA LIMITED

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



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

APPENDIX A

Court File No.: _____

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

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

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

The "**Applicants**"

CONSENT OF THE PROPOSED MONITOR

RSM Canada Limited hereby consents to act as Court-appointed monitor of the Applicants, in respect of these proceedings, subject to the granting of an initial order under the *Companies' Creditors Arrangement Act* (Canada) in the form included in the Applicants' application record.

Dated as of August 2, 2023

RSM Canada Limited

Per:



Name: Arif Dhanani, CPA, CA, CIRP, LIT

Title: Vice-President

**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"**

Court File No.: _____

Applicants

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

MONITOR'S CONSENT

Goodmans LLP
Bay Adelaide Centre
333 Bay Street, Suite 3400
Toronto, ON M5H 2S7
L. Joseph Latham (LSO# 32326A)
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Tel: (416) 597-4211
Lawyers for RSM Canada Limited, the Proposed Monitor

APPENDIX B

Quality Rugs of Canada Limited, Quality Commercial Carpet Corporation, Malvern Contract Interiors Limited and Timeline Floors Inc. & associated entities (the "CCAA Applicants" or the "Group")
For the 13 weeks ending November 3, 2023
in CAD 000's

Note	week > end'g >	Initial Stay Period													Total		
		Week 1 11-Aug	Week 2 18-Aug	Week 3 25-Aug	Week 4 01-Sep	Week 5 08-Sep	Week 6 15-Sep	Week 7 22-Sep	Week 8 29-Sep	Week 9 06-Oct	Week 10 13-Oct	Week 11 20-Oct	Week 12 27-Oct	Week 13 03-Nov			
Receipts																	
Accounts receivable collections	1	3,240	2,767	1,651	1,748	3,936	3,006	1,606	1,497	3,388	2,296	2,272	1,819	3,660	32,887		
Disbursements																	
Purchases of materials	2	1,284	1,360	1,455	1,551	1,646	1,721	1,629	1,620	1,611	1,519	1,509	1,417	1,284	19,608		
Payments to subcontractors	3	798	639	823	823	848	848	1,054	1,054	1,054	1,033	831	1,033	1,033	11,846		
Payroll and benefits	4	25	496	25	496	25	496	25	496	25	496	25	496	25	3,150		
Employee Commissions	5	-	39	-	-	-	39	-	-	-	-	39	-	-	116		
Rent	6	-	-	-	125	-	-	-	-	125	-	-	-	125	375		
Selling, general & admin.	7	114	114	114	114	114	114	114	114	114	114	114	114	114	1,479		
Sales taxes	8	426	-	-	325	-	-	-	325	-	-	-	325	-	1,401		
Professional fees	9	365	137	257	97	122	70	50	50	20	15	15	60	30	1,337		
Financing expenses	10	-	-	-	2	1	1	3	5	5	6	6	8	7	42		
Contingency	11	50	50	25	25	25	10	10	10	10	10	10	10	5	250		
Total disbursements		3,063	2,835	2,699	3,557	2,730	3,351	2,905	3,674	2,964	3,192	2,549	3,463	2,622	39,604		
Net cash flow		177	(68)	(1,048)	(1,809)	1,206	(345)	(1,299)	(2,177)	424	(897)	(277)	(1,644)	1,038	(6,717)		
Cumulative		177	109	(939)													
Restricted cash balance	12	\$6,000	6,177	6,109	5,061												
Interim DIP Facility																	
Opening Interim Facility balance																	
Draws (repayments)					1,809	(1,206)	603	948	2,246	4,423	3,999	4,895	5,172	6,816			
Ending Interim DIP Facility balance (cash)	13				1,809	(1,206)	345	1,299	2,177	(424)	897	277	1,644	(1,038)	5,778		
Pre-Filing ABL																	
ABL opening balance		50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635			
Less: cash receipts		-	-	-	-	-	-	-	-	-	-	-	-	-			
Ending Pre-Filing ABL balance	14	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635	50,635			
Total financing, ending position		50,635	50,635	50,635	52,444	51,238	51,583	52,881	55,058	54,634	55,530	55,807	57,451	56,413			

Dated this 3rd day of August 2023. This statement of projected cash-flow of the CCAA Applicants is prepared in accordance with Section 10(2)(a) of the Companies' Creditors Arrangement Act and should be read in conjunction with the Proposed Monitor's Conclusions on the Cash Flow Statement


Ross G. Fletcher, Acting Chief Financial Officer
I have the authority to sign on behalf of the Applicants

Quality Rugs of Canada Limited, Quality Commercial Carpet Corporation, Malvern Contract Interiors Limited and Timeline Floors Inc. & associated entities (the "CCAA Applicants" or the "Group")
For the 13 weeks ending November 3, 2023
Notes and Summary of Assumptions

Disclaimer The cash flow projections have been prepared by management ("Management") of Quality Rugs of Canada Limited, Quality Commercial Carpet Corporation, Malvern Contract Interiors Limited and Timeline Floors Inc. (the "CCAA Applicants" or the "Group") to set out the forecast cash flow of the Group (the "Cash Flow Forecast") in the *Companies' Creditors Arrangement Act* proceedings (the "CCAA Proceedings") for the period August 4 to November 3, 2023 (the "Cash Flow Forecast Period"). The Cash Flow Forecast has been prepared by Management based on unaudited financial information, and Management's estimates of its projected receipts and disbursements. Readers are cautioned that since the estimates are based on future events, and conditions that are not ascertainable, the actual results achieved will vary, even if the assumptions materialize, and such variations may be material.

There are no representations, warranties or other assurances that any of the estimates, forecasts, or projections will be realized. The projections are based upon certain estimates and assumptions discussed below with respect to operations, including the assumption that the Group continues to operate within the protections afforded as a result of an Initial Order being granted, and as may be amended from time to time during the CCAA Proceedings.

Note

Accounts receivable collections	1	Consistent with the collection pattern over the past twelve months, anticipated weekly accounts receivables collections have been calculated at approximately 7% of the A/R balance of nine weeks prior. This figure has then been adjusted for week-to-week timing differences (customer payment cycles within any given month, holidays, etc.).
Purchases of materials	2	Purchases of flooring surfaces and requisite installation supplies are based on Management's estimate of the appropriate amount required to, in aggregate with inventory on hand, meet forecast installations during the proceedings. It is assumed that purchases will be on a COD basis.
Payments to subcontractors	3	Subcontractors are paid one week in arrears on, substantially, a piecework basis. The forecast amounts represent approximately 32.5% of the prior week's revenue which is consistent with the ratio over the past twelve months.
Payroll and benefits	4	Forecast payroll disbursements include employee wages and vacation pay based on current bi-weekly amounts.
Employee Commissions	5	Commissions are based on a percentage of sales and/or gross margin achieved and are paid monthly in arrears in accordance with relevant employee agreements.
Rent	6	The Group currently operates from three locations - Vaughan, ON; Burnaby, BC; and, Calgary, AB - and also rents warehouse space in Ottawa, ON.
Selling, general & admin.	7	Selling, general, and administrative costs include, but are not limited to, employee related costs, travel, supplies & postage, insurance, communications, repairs & maintenance, utilities, etc., and are consistent with historical costs.
Sales taxes	8	Forecast HST/GST are based on adjusted sales and cost expectations and are remitted monthly on the last week of the month, for the prior month.
Professional fees	9	The forecast professional fees include the outstanding and unpaid professional fees of the Proposed Monitor, legal counsel to the Monitor, and legal counsel to the Group as at the date of filing as well as the professional fees and expenses of the Monitor, legal counsel to the Monitor, legal counsel to the Group, and the legal counsel and financial advisor to the DIP Lender as incurred and paid during the Cash Flow Forecast Period.
Financing expenses	10	Financing expenses are comprised of interest on the CCAA Interim DIP facility as set out in the DIP facility term sheet.
Contingency	11	Management has included a contingency to address unforeseen costs that may occur over the Cash Flow Forecast Period.
Restricted cash balance	12	Estimated balance in Group's blocked account controlled by Waygar Capital Inc. (at noon on August 3rd there was approximately \$6.18 million in the blocked accounts). This cash flow model assumes that at least \$939,00 of the restricted cash will be available to fund the Group's operations during the initial stay period.
Ending Interim DIP Facility balance (cash)	13	Interim lending is forecast to be required during the forecast period to partially fund operations, professional fees and financing expenses. If access to the entire restricted cash balance is permitted, the requirement to draw on a DIP facility will be delayed and reduced.
Ending Pre-Filing ABL balance	14	No interest or cash receipts will be remitted to senior lender.

APPENDIX C

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, TIMELINE FLOORS INC., MALVERN CONTRACT INTERIORS LIMITED, ONTARIO FLOORING LTD., WESTERN HARDWOOD DESIGN CENTRE, ET AL.

MANAGEMENT'S REPORT ON CASH FLOW STATEMENT
(paragraph 10(2)(b) of the CCAA)

The management of Quality Rugs of Canada Limited, Timeline Floors Inc., Malvern Contract Interiors Limited, Ontario Flooring Ltd., Western Hardwood Design Centre (together, "QSG") and various holding companies of QSG (collectively referred to herein as the "Applicants") have developed the assumptions and prepared the attached statement of projected cash flow as of the 3rd day of August, 2023 for the period August 4, 2023 to November 3, 2023 ("Cash Flow"). All such assumptions are disclosed in the notes to the Cash Flow.

The hypothetical assumptions are suitably supported and consistent with the purpose of the Cash Flow as described in the Disclaimer note to the Cash Flow, and the probable assumptions are suitably supported and consistent with the plans of the Applicants and provide a reasonable basis for the Cash Flow.

Since the Cash Flow is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material.

The Cash Flow has been prepared solely for the purpose outlined in the Disclaimer note using a set of probable assumptions set out therein. Consequently, readers are cautioned that the Cash Flow may not be appropriate for other purposes.

Dated at Toronto, Ontario this 3rd day of August, 2023.

Quality Rugs of Canada Limited, Timeline Floors Inc., Malvern Contract Interiors Limited, Ontario Flooring Ltd., Weston Hardwood Design Centre and various holding companies of QSG

Per: 

Name: Ross G. Fletcher
Title: Acting Chief Financial Officer

APPENDIX D

DIP Comparison Schedule
Excerpt of DIP Facilities Granted in Canada - for the period from July 2022 to June 2023

Debtor	Lender	Monitor	Filing Date	Province	DIP Facility (\$million)	Interest	Fees
Swarmio Media Holdings Inc., Swarmio Inc. and Swarmio Media Inc.	Triaccess Ltd.	Grant Thornton A&M	20-Jun-23	Ontario	1.50	12%	Commitment fee of 2%
Manitoba Clinic Medical Corporation and the Manitoba Clinic Holding Co. Ltd.	CIBC	Grant Thornton A&M	30-Nov-22	Manitoba	4.00	11%	Reasonable fees and expenses of the lender
Springer Aerospace Holdings Limited and 1138969 Ontario Inc.	Hillmount Capital Inc.	MNP	23-Nov-22	Ontario	1.50	13%	Commitment fee of \$60,000, Lender legal fees, disbursements and HST
Trichome Financial Corp.	Cortland Credit Lending Corporation	KSV	7-Nov-22	Ontario	4.88	14%	Commitment fee of \$97,000
The Flower Corporation, et al.	1000343100 Ontario Inc.	EY	20-Oct-22	Ontario	2.00	17%	Commitment fee of \$40,000
Sugarbud Craft Growers Corp., et al.	Connect First Credit Union Ltd.	A&M	26-Sep-22	Alberta	2.00	12%	Commitment fee of 2%
iS5 Communications Inc.	Phoenix Contract Venture Funds I GmbH	Grant Thornton	5-Aug-22	Ontario	1.51	14%	Commitment fee of 2%
MPX International Corporation	Certain debenture holders	KSV	24-Jul-22	Ontario	2.67	12%	Commitment fee of 2%

APPENDIX E

1.0 A&M CF OVERVIEW

1.1 A&M CF is the Canadian corporate finance and investment banking arm of Alvarez & Marsal, a global professional services firm and provider of corporate advisory services. Founded in 1983, Alvarez & Marsal is headquartered in New York City with more than 70 offices across North America, Europe, the Middle East, Asia, and Latin America. Alvarez & Marsal provides a variety of corporate and financial advisory services, including turnaround management, corporate restructuring, investment banking and operational performance improvement for companies and its stakeholders.

1.2 A&M CF has extensive experience in investment banking, mergers, acquisitions, refinancing and other corporate finance transactions, including significant experience within the Canadian building products sector.

2.0 SALES PROCESS OVERVIEW

2.1 As part of the Credit Agreement Amendment and Accommodation Agreement between Waygar Capital Inc. (the “Lender”) and Quality Rugs of Canada Limited and related entities (“QSG” or the “Company”) dated February 14, 2023, Alvarez & Marsal Canada Securities ULC (“A&M CF”) was engaged by QSG on February 1, 2023 as its financial advisor to, among other things, assist the Company in evaluating and pursuing a potential financing, restructuring or sales transaction (a “Transaction”). The objective of this Sale and Investment Solicitation Process (“SISP”) was to canvass the market to identify and engage with parties who may have interest in i) refinancing the Lender’s secured debt or

ii) acquiring QSG's business either through a (a) sale of shares, (b) sale of assets, (c) merger, (d) consolidation, or (e) other business combination.

2.2 As per the engagement letter between A&M CF and QSG, A&M CF's fees were structured on a work fee and success fee basis. The work fees were set at \$ [REDACTED] per month for the first three months and \$ [REDACTED] per month thereafter (the "Work Fees"). Upon the successful completion of a Transaction, A&M CF would be entitled to a success fee equal to: (a) [REDACTED]% of any debt raised or committed and [REDACTED]% of the amount of equity raised or committed, subject to a minimum fee of \$ [REDACTED]; (b) [REDACTED]% of the aggregate gross consideration paid in a sale transaction, subject to a minimum fee of \$ [REDACTED]; and (c) \$ [REDACTED] upon the consummation of a restructuring transaction (the "Success Fee"). To the extent paid, Work Fees totalling a maximum of \$ [REDACTED] will be credited against any Success Fee.

2.3 A summary of the SISP is described below:

(i) A&M CF and QSG's executive management worked to prepare a marketing document to send to potential investors to generate interest in a transaction (the "Teaser") and confidential information memorandum (the "CIM") for parties to review upon the execution of a non-disclosure agreement (the "NDA"). The CIM provided an overview of, and significant detail about, QSG's business, historical and forecast financial information, the Canadian contract flooring industry and other relevant information.

(ii) The SISP undertaken by A&M CF was comprehensive and was developed alongside QSG executive management who advised of the following factors

concerning the construction industry that helped structure the SISP strategy and targeting, including:

- (a) There are no competitors of comparable size and scope with the necessary capabilities and financial capacity to execute a Transaction and meet QSG's working capital requirements. The largest Canadian competitor to QSG would fall within the revenue range of \$20 million to \$30 million, with possibly one or two in that category. Most, if not all, of these competitors do not have the capability to offer all three major flooring categories (i.e., tile, wood, and carpet) on a mass scale. Consequently, they lack the necessary know-how and ability to handle this type of acquisition. Additionally, these companies are owner-operated, and many have approached QSG with the intention of being bought out by QSG, as they lack a transition plan or are themselves under financial stress. As a result, A&M CF did not approach any of these competitors.

- (b) A&M CF did not approach real estate builders due to their requirement for a credible arms-length bidding process with subtrades when establishing construction budgets and securing project financing. A builder's acquisition of QSG would disrupt this competitive bidding process and negatively impact the builder's relationship with its financing sources. Additionally, other major flooring contractors bidding on work would not consider the bidding process as credible and, as a result, would not invest their time and effort in submitting bids reducing competitiveness and increasing costs. For builders, whose core competency and business model revolve around

managing multiple trades involved in their construction projects, taking ownership over a subtrade, especially at the scale of QSG, falls outside their area of expertise.

- (c) Based on A&M CF's extensive knowledge of the Canadian building products sector and their experience in special situations investment banking, A&M CF believes that the judgment made by QSG executive management on these matters was reasonable.

- (iii) Based on the foregoing factors, A&M CF identified 273 parties to contact and invite to participate in the SISP, including traditional, non-bank and alternative lenders as well as both strategic and financial buyers across Canada, United States and internationally (the "Potential Investors").

- (iv) These Potential Investors were identified based on specific criteria, including but not limited to: (i) an expressed interest or established investments within the contract flooring or building products industries; (ii) their financial capability to complete a transaction; (iii) experience in distressed and/or special situation transactions; and (iv) ability to execute a transaction within an expedited timeline.

- (v) The SISP was structured as a two-phase process. The first phase ("Phase 1") involved contacting Potential Investors, facilitating initial due diligence, providing access to the CIM and electronic data room and obtaining the receipt by QSG of non-binding indications of interest ("IOIs") for the purchase of, or investment in, all or part of QSG's business and assets. The second phase of the SISP ("Phase 2")

involved facilitating additional due diligence and organizing meetings with QSG's executive management.

- (vi) The timeline proposed in connection with the SISP is consistent and similar to such timelines used in SISPs undertaken within a CCAA process. The table below summarizes the key dates and milestones in relation to the SISP:

SISP	Date	Days (Cumulative)
Phase 1		
Commencement of the SISP	March 13, 2023	40
Phase 1 due diligence	March 13 to April 17	
Provide Phase 1 Process Letter	April 5	
Phase 1 IOI bid date	April 17	
Analysis of IOIs and selection of Phase 2 participants	April 17 to 21	
Phase 2		
Phase 2 due diligence	April 22 to date	95 (135)
Management presentations	April 28, May 4, May 18	
LOI executed	July 25	

Phase 1

- (vii) The SISP commenced March 13, 2023. A&M CF: (a) provided Potential Investors with the Teaser document containing information about QSG to solicit interest in the opportunity; (b) held discussions, upon request, with representatives of Potential Investors to provide further details regarding the business and the transaction opportunity; and (c) invited interested parties to execute an NDA to obtain additional information.
- (viii) During Phase 1, A&M CF reached out to a total of 273 Potential Investors. This group included 16 lending institutions, 253 private equity firms, and 4 strategic

parties. Furthermore, the private equity firms contacted had investments in 40 companies that were in a same or similar type of business as QSG. As such, A&M contacted a total of 44 strategic parties after including the companies that are portfolio investments of the private equity firms contacted.

- (ix) Of the Potential Investors contacted in Phase 1, 59 executed an NDA, received the CIM and were granted access to an electronic data room (the “Interested Parties”). Among the Interested Parties, nine were lenders, 49 were private equity firms (with investments in 18 strategic parties), and one strategic party.
- (x) The electronic data room was established by A&M CF with assistance from QSG’s executive management team, which included information regarding QSG’s financial performance, customer base, working capital, contracted backlog, and financial projections.
- (xi) Interested Parties were provided with a Phase 1 Process Letter (the “Phase 1 Letter”) which contained instructions for submitting an IOI and were asked to submit their IOI by 5:00pm Eastern Time on April 17, 2023. A copy of the Phase 1 Letter is attached hereto as Exhibit "A".
- (xii) Throughout this period, A&M CF and QSG executive management worked diligently with the Interested Parties, offering prompt responses to inquiries, discussing QSG's business and current operations, and addressing diligence matters. The aim was to ensure that the Interested Parties had all the necessary information to formulate an IOI in respect of a potential Transaction involving QSG.

- (xiii) A&M CF provided the QSG executive team with regular updates on the ongoing activities related to the SISP. These updates were conveyed through weekly meetings, and in some instances, multiple meetings throughout the week. Additionally, upon request, A&M CF provided updates on the SISP to the Lender, often involving its financial consultant from Fuller Landau.
- (xiv) The SISP culminated in the submission of three IOIs from the Interested Parties. On the IOI bid deadline date of April 17, 2023, A&M CF received a non-binding IOI from a Canadian private equity fund (“PE Bidder 1”) that had experience in the Canadian flooring industry, as well as experience with expedited and distressed sale processes. The IOI from PE Bidder 1 proposed to acquire all or substantially all of QSG’s business as a going concern and considered a CCAA proceeding.
- (xv) On April 19, 2023, A&M CF received a second non-binding IOI from a Canadian banking institution (“CBI”) to refinance a portion of the Lender’s secured debt, with funding contingent upon a minimum equity injection from an acceptable third party.
- (xvi) On May 16, 2023, A&M CF received a third non-binding IOI from an American-based private equity fund (“PE Bidder 2”) that was introduced later in the Phase 1 process. PE Bidder 2 had experience in the building materials distribution industry and in expedited and distressed sale processes. PE Bidder 2’s IOI also contemplated acquiring all or substantially all of QSG’s business as a going concern and considered a CCAA proceeding. A table summarizing each of the three IOIs received during Phase 1 is attached hereto as Confidential Exhibit “B”.

- (xvii) All IOIs were shared and discussed with QSG's executive management and the Lender. The feedback received from the Lender indicated that the bid from PE Bidder 1 was considered too low, falling below its estimation of QSG's liquidation value. The bid from PE Bidder 2, however, was preferred as it approached the Lender's estimate of the liquidation value, offering potentially higher total realizations.
- (xviii) Considering the limited number of IOIs received, A&M CF, in consultation with QSG's executive management and the Lender, agreed to advance both PE Bidder 1 and PE Bidder 2 to participate in Phase 2 of the SISP ("Phase 2") with the aim of fostering competitive tension among the bidders and potentially enhancing the bid amounts.
- (xix) In the case of CBI, it was decided that the most suitable course of action would be to introduce them to Interested Parties in need of a lender to fund a transaction. With permission from CBI, A&M CF shared the CBI IOI with PE Bidder 1 and PE Bidder 2 and offered introductions as requested.
- (xx) Additionally, a publicly-traded Canadian strategic party ("Strategic Party"), which has an American-based subsidiary directly comparable to QSG, expressed interest in acquiring QSG. Despite not submitting an IOI, the Strategic Party was invited to participate in a management meeting due to its overall knowledge of the business and potential for financial and operational synergies.

- (xxi) A&M CF also maintained ongoing communication with a small group of potential lenders from Phase 1 to determine their potential interest in providing debt financing in support of a potential transaction in Phase 2.

Phase II

- (xxii) Phase 2 commenced on April 22, 2023, granting parties further access to diligence items and participation in management presentations with QSG's executive management.
- (xxiii) Throughout Phase 2, A&M CF held numerous discussions with the bidders, working closely with QSG's executive management to respond to due diligence requests and provide all requested information in a diligent manner.
- (xxiv) In Phase 2, both PE Bidder 1 and PE Bidder 2, along with the Strategic Party, participated in management presentations.
- (xxv) Following the management presentations, both PE Bidder 2 and the Strategic Party made the decision to withdraw from the SISF. Both parties highlighted QSG's difficult financial condition and substantial challenges involved in turning around the Company's operations and restoring profitability as reasons for withdrawal.
- (xxvi) A&M CF continued discussions with PE Bidder 1, addressing its additional due diligence requests. On May 16, 2023, A&M CF facilitated a follow-up meeting between PE Bidder 1 and the Lender to discuss its Phase 1 IOI bid in detail (the "First Follow-up Meeting"). Following the First Follow-up Meeting, the Lender

reiterated to A&M CF that the bid fell short of its estimation of QSG's liquidation value.

(xxvii) On June 16, 2023, PE Bidder 1 shared an outline via email, presenting a restructured bid with a material increase in total value that it intended to discuss with the Lender. In response, A&M CF arranged a second follow-up meeting between PE Bidder 1 and the Lender on June 19, 2023, to discuss the revised bid (the "Second Follow-up Meeting"). Following the Second Follow-up Meeting, the Lender acknowledged to A&M CF that the bid was notably closer to its estimation of QSG's liquidation value. However, it still remained below the Lender's desired threshold.

(xxviii) On July 11th, PE Bidder 1 formally submitted a non-binding Letter of Intent ("LOI") to both QSG and A&M CF. The LOI substantially reflected the emailed offer that was discussed in the Second Follow-up Meeting, with adjustments made to the total value to account for the decrease in working capital since the Second Follow-up Meeting. The LOI put forth by PE Bidder 1 outlined its intention to operate QSG's business as a going concern, with a strong commitment to retaining the majority of employees and providing continued service to customers. On July 25, 2023, the LOI was executed between QSG and PE Bidder 1. A summary of the LOI is attached hereto as Confidential Exhibit "C".

(xxix) The LOI was the product of a thorough and robust canvassing of the market and a competitive process. The purchase price and other consideration set out in the LOI, following extensive arms-length negotiations and thorough due diligence, is

reflective of current market conditions and is the best indication of the market value of QSG's business and operations.

- (xxx) A&M CF firmly stands by the integrity and effectiveness of the broad SISP that was conducted. Despite reaching out to a substantial pool of 273 Potential Investors, only PE Bidder 1 expressed continued interest in acquiring the Company. The SISP was diligently designed to ensure fairness, transparency, and the maximization of value for all stakeholders involved.

- (xxxi) The fact that only one potential buyer emerged from such a significant pool indicates that the market for QSG is severely limited or not sufficiently attractive to other potential suitors. Re-running the SISP at this point is unlikely to yield significantly different or better results, as our detailed canvassing of Potential Investors indicates a lack of other viable options in the market. Additionally, the costs associated with conducting another extensive SISP, including time, resources, and expenses, would be impractical and would exacerbate the Company's financial distress.

- (xxxii) In light of these circumstances, A&M CF believes it would be more prudent to focus on negotiating with PE Bidder 1 to maximize the value of QSG and secure the best possible outcome for its Lender and other stakeholders.

Exhibit A Phase 1 Letter



Alvarez & Marsal Canada Securities ULC
Royal Bank Plaza, South Tower
200 Bay Street, Suite 2900, P.O. Box 22
Toronto, ON M5J 2J1
Phone: +1 416 847 5200
Fax: +1 416 847 5201

Strictly Private and Confidential

Dear Sirs and Mesdames:

Re: Project Silver – Submission of Non-Binding Indication of Interest

We appreciate your interest in exploring a potential transaction with Quality Rugs of Canada Limited, dba Quality Sterling Group (the "Company").

Pursuant to your execution of the non-disclosure agreement (the "Non-Disclosure Agreement") with the Company, you have been provided certain confidential information with respect to the operations and financial performance of the Company ("Phase I"). Interested parties wishing to pursue a transaction are being asked to prepare and submit a non-binding Indication of Interest ("IOI") to purchase, invest and/or refinance the Company **by 5:00 p.m. Eastern Time on Monday, April 17, 2023 ("IOI Deadline")**. Such IOIs will be used to determine which interested parties, if any, will be invited to move forward in the Company's investment process and continue to the submission of final binding proposals and a successful transaction ("Phase II"). IOIs that are submitted in accordance with the requirements of this letter will be reviewed and assessed based on, among other considerations, price, structure, and financing.

Your IOI should be submitted in electronic format no later than **5:00 p.m. Eastern Time on Monday, April 17, 2023**. Your IOI should be addressed as follows:

Hugh Rowan-Legg Managing Director Alvarez & Marsal, Corporate Finance Tel: (416) 847 5172 hrowanlegg@alvarezandmarsal.com	Justin Sim Senior Director Alvarez & Marsal, Corporate Finance Tel: (416) 847 5169 jsim@alvarezandmarsal.com	Xavier Luk Associate Alvarez & Marsal, Corporate Finance Tel: (416) 847 2703 xluk@alvarezandmarsal.com
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Based on the information available to you at such time, your IOI should include the following:

1. **Transaction Summary:** A summary of the proposed transaction contemplated in your IOI, including a clear indication that your IOI is to:
 - i. acquire all, substantially all or portions of the Company's assets or shares; and/or
 - ii. make an investment in or refinance the Company, including a description of the contemplated transaction structure.

Your IOI should set out (i) the proposed range of enterprise values, expressed in Canadian dollars, that you would be prepared to offer to purchase all, or that portion of the Company or its assets, which is contemplated in your IOI, on a debt-free, cash-free basis as well as the proposed form of consideration, ownership structure, earn-out, etc.; and/or (ii) a description of the structure of your proposed investment and the aggregate amount of equity, debt, or other form of investment contemplated in your proposal and the material terms thereof.

2. **Financing Sources:** A summary of your intended sources of equity and debt financing for the transaction.
3. **Other:** Any other factors you believe may be relevant to the Company and A&M in evaluating your IOI.

The terms and content of this letter are subject to the terms of the Non-Disclosure Agreement previously executed by you.

The Company, its affiliates and its advisors assume no liability or obligation whatsoever to any interested party in connection with the process, including, but not limited to, as a result of the rejection of any or all of the IOIs, or the termination of the process. No party will be entitled for any reason (including, without limitation, any modification of the procedures contemplated herein) to reimbursement for any costs or expenses incurred in reliance upon the procedures set forth in this letter, as such procedures may be modified from time to time. No finder's fees, commissions, expenses or other compensation will be paid by the Company, its affiliates or its advisors to agents, consultants, advisors or other intermediaries of any party. The Company, its affiliates and its advisors reserve the right to amend any information which has been made available to interested parties whether by way of addition, deletion, amendment or otherwise.

Following April 17, 2023, the Company will evaluate the IOIs received in consultation with its advisors. After careful consideration, a select group of parties will be notified of their advancement in the process and granted access to management presentations.

Pursuant to the Non-Disclosure Agreement, under no circumstances are you permitted to contact any of the Company's executives, employees, directors, shareholders, affiliates, lenders, customers, suppliers, vendors or service providers with respect to any transaction unless consented to by the Company or its advisors. A&M continues to be available to speak with you in advance of the IOI Deadline to address any further questions and information requests you may have to assist you in preparing your IOI. All communications or inquiries regarding the process or any other matters relating to this letter should be directed to A&M through Hugh Rowan-Legg at (416) 847-5172, Justin Sim at (416) 847-5169, or Xavier Luk at (416) 847 2703.

Once again, we appreciate your interest in the Company and look forward to receiving your IOI.

Yours truly,

By:  _____

Name: Hugh Rowan-Legg
Title: Managing Director

**Confidential Exhibit B
Phase 1 IOIs Received**

Parties invited into Phase 2

Party	Bid/Indicative Terms
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

**Confidential Exhibit C
Phase 2 Final Bids Received**

Bidder	Form of Bid	Valuation

APPENDIX F



July 24, 2023

PRIVATE & CONFIDENTIAL

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

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

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

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

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

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

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

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

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

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

(a)

(b)

(c)

(d)

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

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

2.3 The Cash Purchase Price will be adjusted as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**IRONBRIDGE EQUITY PARTNERS
MANAGEMENT LIMITED**

by 
Name: Alan Sellery
Title: President & Managing Partner

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

QUALITY RUGS OF CANADA LIMITED

by _____
Name:
Title:

**QUALITY COMMERCIAL CARPET
CORPORATION**

by _____
Name:
Title:

PATJO HOLDINGS LTD.

by _____
Name:
Title:

TIMELINE FLOORS INC.

by _____
Name:
Title:

**WESTON HARDWOOD DESIGN
CENTRE INC.**

by _____
Name:
Title:

**MALVERN CONTRACT INTERIORS
LIMITED**


by _____
Name:
Title:

ONTARIO FLOORING LTD.

by _____
Name:
Title:


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

**IRONBRIDGE EQUITY PARTNERS
MANAGEMENT LIMITED**

by 
Name: Alan Sellery
Title: President & Managing Partner

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


QUALITY RUGS OF CANADA LIMITED

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


**QUALITY COMMERCIAL CARPET
CORPORATION**

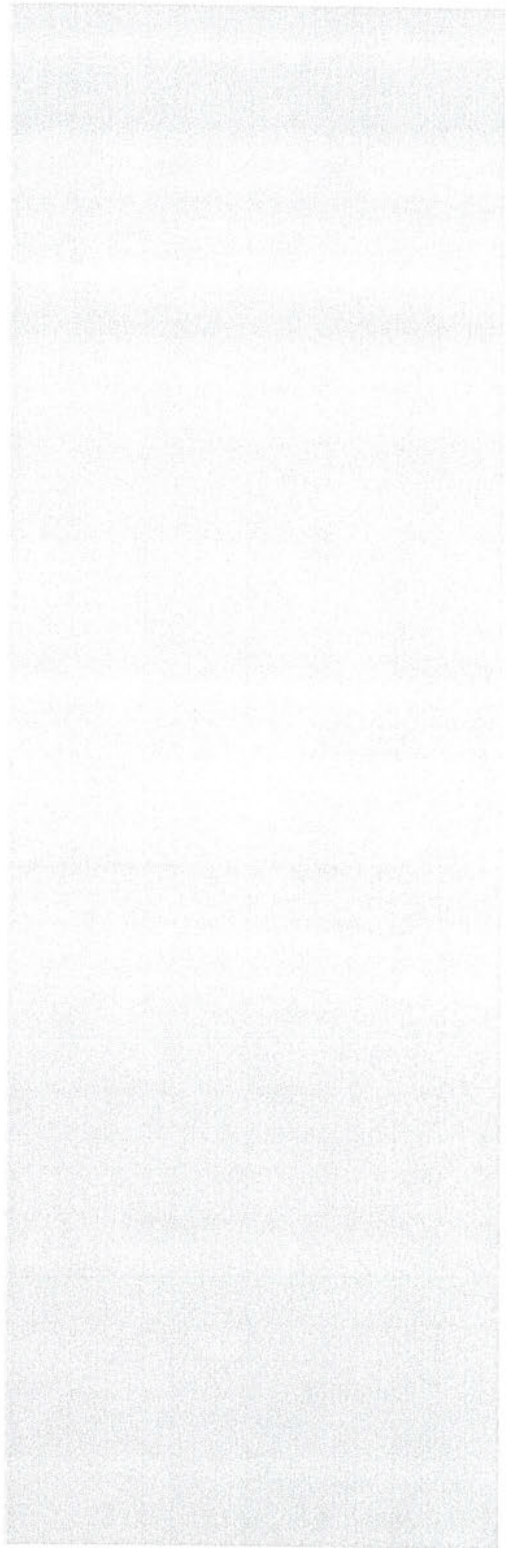
by 
Name: J.D. Loewie
Title: Co-CEO

PATJO HOLDINGS LTD.

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

TIMELINE FLOORS INC.

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



WESTON HARDWOOD DESIGN
CENTRE INC.



by _____
Name: J.D. Lociore
Title: Co-CEO

MALVERN CONTRACT INTERIORS
LIMITED

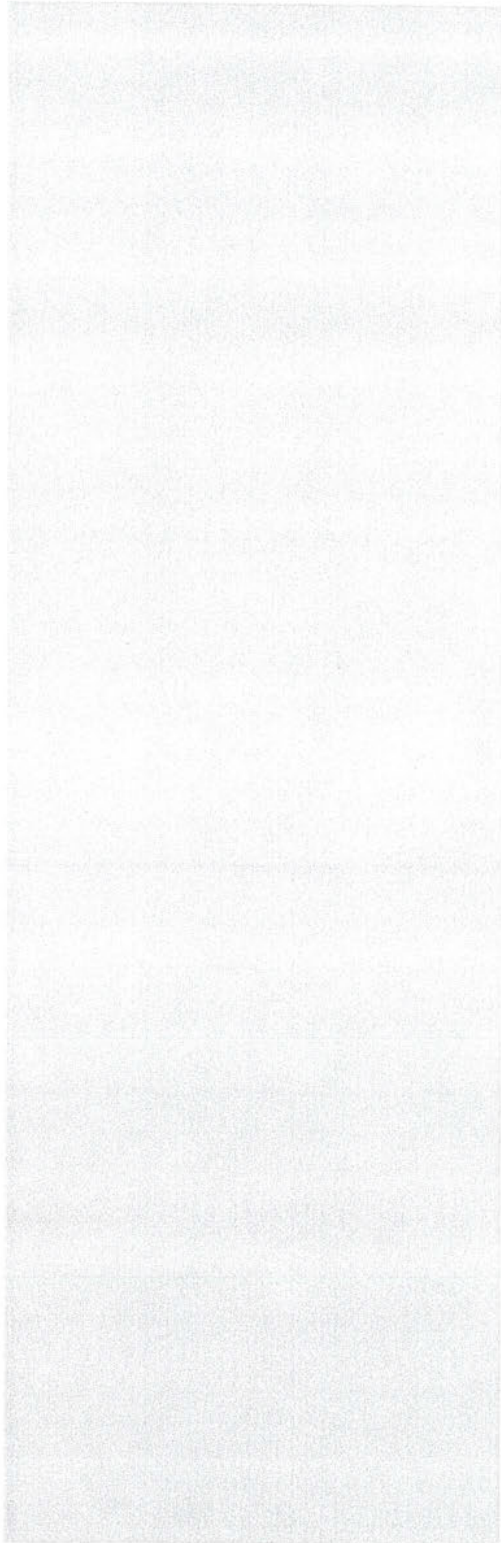


by _____
Name: J.D. Lociore
Title: Co-CEO

ONTARIO FLOORING LTD.



by _____
Name: J.D. Lociore
Title: Co-CEO



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

**IRONBRIDGE EQUITY PARTNERS
MANAGEMENT LIMITED**

by _____
Name: Alan Sellery
Title: President & Managing Partner

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

QUALITY RUGS OF CANADA LIMITED

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

**QUALITY COMMERCIAL CARPET
CORPORATION**

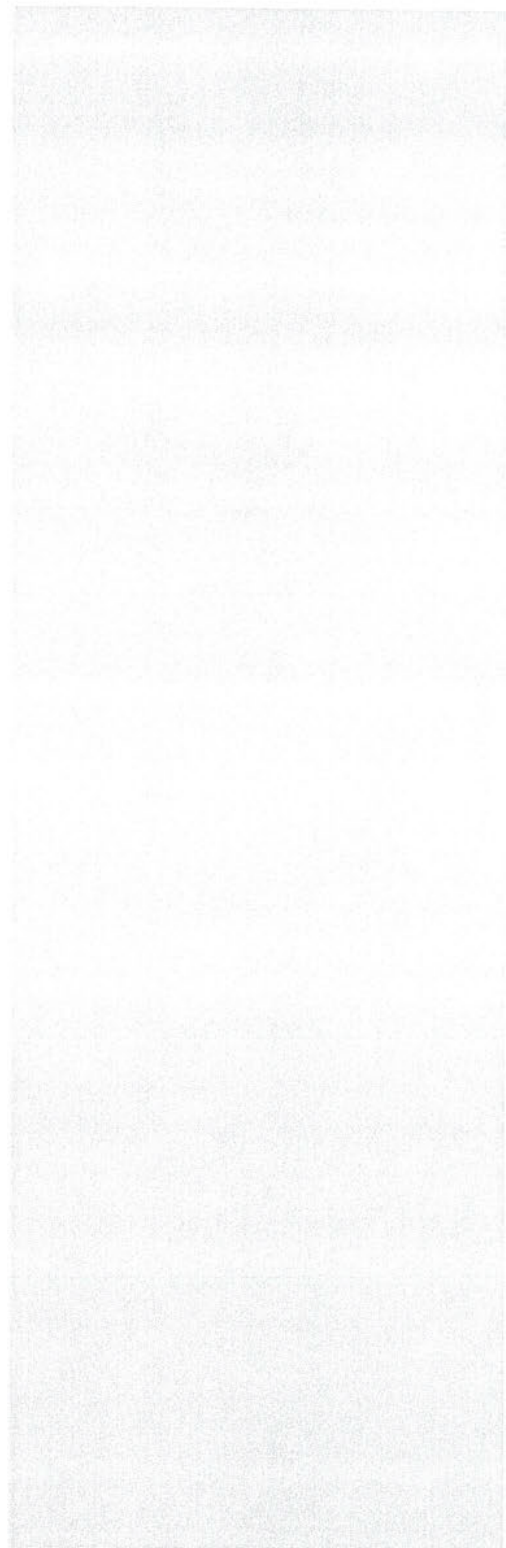
by _____
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PATJO HOLDINGS LTD.

by _____
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TIMELINE FLOORS INC.

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



WESTON HARDWOOD DESIGN
CENTRE INC.

by _____

Name:
Title:



J.O. Loewie
Co-CEO

MALVERN CONTRACT INTERIORS
LIMITED

by _____

Name:
Title:



J.O. Loewie
Co-CEO

ONTARIO FLOORING LTD.

by _____

Name:
Title:



J.O. Loewie
Co-CEO

