

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

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

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

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

**August 25, 2023**

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## I. INTRODUCTION

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

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

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

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

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

### **Purpose of Report**

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

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## Terms of Reference

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



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

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

## **II. THE TRANSACTION**

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

*[remainder of page left blank intentionally]*

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

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### III. IRONBRIDGE DIP FINANCING

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

*[remainder of page left blank intentionally]*

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

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

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

#### **IV. COURT ORDERED CHARGES**

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

##### **Administration Charge**

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

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

### **Directors' Charge**

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

### **DIP Lender's Charge**

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

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### **Financial Advisor's Charge**

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

### **Lien Charge**

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



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## V. CONCLUSIONS AND RECOMMENDATIONS

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

All of which is respectfully submitted to this Court as of this 25<sup>th</sup> 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. CV-23-00703292-00CL

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

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

THE HONOURABLE MR. )  
JUSTICE PENNY )  
 )  
 )

FRIDAY, THE 4<sup>TH</sup>  
DAY OF AUGUST, 2023

B E T W E E N:

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

Applicant

- and -

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

Respondents

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

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

**ORDER**

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

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

## **ADJOURNMENT**

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

## **DUTY TO PROVIDE ACCESS AND CO-OPERATION**

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

(a)

## **POSSESSION OF PROPERTY AND OPERATIONS**

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

## **NO PROCEEDINGS AGAINST THE DEBTORS OR THE PROPERTY**

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

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

#### **NO EXERCISE OF RIGHTS OR REMEDIES**

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

#### **NO INTERFERENCE WITH RIGHTS**

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

#### **CONTINUATION OF SERVICES**

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

## **NON-DEROGATION OF RIGHTS**

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

## **CASH MANAGEMENT**

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

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

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

## **INTERIM FINANCING**

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

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

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

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

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

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

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

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

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

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

#### **SERVICE AND NOTICE**

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



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

### **SEALING**

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

### **GENERAL**

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

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



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

## **Schedule “A” – Other Applicants**

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

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

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

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

53898300.1

# **APPENDIX B**

Court File No.:

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

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

**Applicants**

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

**August 3, 2023**

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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**

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**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,

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

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

## **II. BACKGROUND**

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

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

### III. QSG CASH FLOW FORECAST

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

*[remainder of page left blank intentionally]*

<b>Quality Sterling Group Cash Flow Summary (in \$000's)</b>			
	<b>Initial Stay Period Weeks 1 - 3</b>	<b>10 Week Period Weeks 4 to 13</b>	<b>13 Week Total</b>
<b>Receipts</b>			
Accounts receivable collections	\$ 7,658	\$ 25,229	\$ 32,887
<b>Disbursements</b>			
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
<b>Total disbursements</b>	<b>\$ 8,597</b>	<b>\$ 31,007</b>	<b>\$ 39,604</b>
<b>Net cash flow</b>	<b>\$ (939)</b>	<b>\$ (5,778)</b>	<b>\$ (6,717)</b>
<b>Use of cash in Blocked Account <sup>1</sup></b>	<b>\$ 939</b>		<b>\$ 939</b>
<b>Use of cash in Blocked Account/DIP Facility</b>		<b>\$ 5,778</b>	<b>\$ 5,778</b>
<b>Total</b>	<b>\$ 939</b>	<b>\$ 5,778</b>	<b>\$ 6,717</b>
<sup>1</sup> 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

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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.

<b>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)</b>			
	QSG	FLGI	Difference
<b>Receipts</b>			
Opening cash	\$ -	\$ 500	\$ (500)
AR Collections, including holdback collections	32,887	18,999	13,888
<b>Total receipts</b>	<b>\$ 32,887</b>	<b>\$ 19,499</b>	<b>\$ 13,388</b>
<b>Disbursements</b>			
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
<b>Total disbursements</b>	<b>\$ 39,604</b>	<b>\$ 15,012</b>	<b>\$ 24,592</b>
<b>Net cash inflow (outflow)</b>	<b>\$ (6,717)</b>	<b>\$ 4,487</b>	<b>\$ (11,204)</b>

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.

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## 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

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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**

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**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

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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

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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

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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.

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## VII. STATEMENT OF ESTIMATED REALIZATIONS

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

## VIII. COURT ORDERED CHARGES

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

### **Administration Charge**

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



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

#### **DIP Lender's Charge**

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

#### **Lien Charge**

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

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### **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.

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## 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.

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

**RSM CANADA LIMITED**

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



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

# APPENDIX C

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

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

**Applicants**

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

**August 17, 2023**

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August 4<sup>th</sup> Order..... A

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## I. INTRODUCTION

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

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

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

### **Purpose of Report**

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

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

#### **Terms of Reference**

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

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

## **II. DISCUSSIONS BETWEEN WAYGAR AND IRONBRIDGE**

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

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

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

### **III. ACTIVITIES OF THE ADVISORS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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## VI. CONCLUSIONS AND RECOMMENDATIONS

24. The Proposed Monitor concludes that:

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

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

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

### **RSM CANADA LIMITED**

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



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

# **APPENDIX D**

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

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

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

THE HONOURABLE MR. ) FRIDAY, THE 18<sup>TH</sup>  
 )  
JUSTICE PENNY ) DAY OF AUGUST, 2023  
 )

B E T W E E N:

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

Applicant

- and -

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

Respondents

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF QUALITY RUGS OF CANADA LIMITED,  
MALVERN CONTRACT INTERIORS LIMITED, WESTON HARDWOOD  
DESIGN CENTRE INC., ONTARIO FLOORING LTD., TIMELINE  
FLOORS INC., AND QUALITY COMMERCIAL CARPET CORPORATION  
(the "**Respondents**" or the "**Debtors**")

**ORDER**

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

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

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

### **ADJOURNMENT**

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

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

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

### **GENERAL**

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

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

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

# APPENDIX E

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

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

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

THE HONOURABLE MR. ) WEDNESDAY, THE 23<sup>rd</sup>  
JUSTICE PENNY )  
) DAY OF AUGUST, 2023

B E T W E E N:

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

Applicant

- and -

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

Respondents

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF QUALITY RUGS OF CANADA LIMITED,  
MALVERN CONTRACT INTERIORS LIMITED, WESTON HARDWOOD  
DESIGN CENTRE INC., ONTARIO FLOORING LTD., TIMELINE  
FLOORS INC., AND QUALITY COMMERCIAL CARPET CORPORATION  
(the "**Respondents**" or the "**Debtors**")

**ORDER**

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



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

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

## **ADJOURNMENT**

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

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

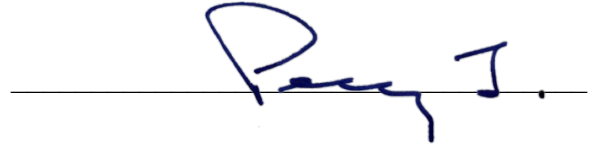
3. **THIS COURT ORDERS** that any disbursement from the funds that accrue in the Blocked Account (as that term is defined in the Affidavit of Don Rogers sworn July 24, 2023) shall be disbursed only on the consent of the Advisors, who shall approve only those obligations that, in the opinion of the Advisors,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

## **GENERAL**

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

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

53896679.1

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

# **APPENDIX F**

## DIP FACILITY LOAN AGREEMENT

DATED AS OF AUGUST 25, 2023

**WHEREAS** Quality Rugs of Canada Limited ("**Borrower**") have requested the DIP Lenders (defined below) to provide funding in order to assist with proceedings under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**") commenced before the Ontario Superior Court of Justice – Commercial List (the "**Court**") in accordance with the terms and conditions set out herein (the "**CCAA Proceeding**");

**WHEREAS** the DIP Lender has agreed to provide the DIP Facility (defined below) in accordance with the terms and conditions set out below;

**NOW THEREFORE**, in consideration of the foregoing and their respective representations, warranties, covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereby agree as follows:

1. **Defined Terms:** A capitalized term not defined in the body of this Agreement has the meaning ascribed to it in the Definitions section below.
2. **Interpretation:** In this Agreement, words signifying the singular number include the plural and *vice versa*, and words signifying gender include all genders. Every use of the word "including" in this Agreement is to be construed as meaning "including, without limitation".  
  
The division of this Agreement into Sections and the insertion of headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement.  
  
References in this Agreement to Section or Schedule are to be construed as references to a Section or Schedule of or to this Agreement unless the context requires otherwise.
3. **Currency:** Unless otherwise stated, all monetary denominations shall be in lawful currency of Canada.
4. **Borrower:** has the meaning set out in the preamble to this Agreement.
5. **Guarantors:** means Malvern Contract Interiors Limited, Weston Hardwood Design Centre Inc., Ontario Flooring Ltd., Timeline Floors Inc., Quality Commercial Carpet Corporation and Patjo Holdings Ltd. (collectively, the "**Guarantors**" and collectively with the Borrower, the "**Obligors**")
6. **DIP Lenders:** Ironbridge Equity Partners IV, LP and Ironbridge Equity Partners (International) IV, LP (collectively, the "**DIP Lenders**" and each a "**DIP Lender**")

7. **DIP Facility:** The DIP Lenders agree to advance to the Borrower as a debtor-in-possession non-revolving credit facility (the "**DIP Facility**") up to the principal amount of \$5,000,000 (the "**Loan Amount**"), which principal amount may be increased by \$2,000,000 (the "**Additional Loan Amount**") subject to the terms of this Agreement.
- The maximum amount made available under the DIP Facility, including an initial advance in the amount of \$2,800,000 (the "**Initial Advance**") shall not, subject to the terms hereof, exceed the amount of \$7,000,000 (the "**Maximum Amount**").
8. **Availability of Additional Loan Amount:** The maximum principal amount of the DIP Facility shall be increased to the Maximum Amount by the Additional Loan Amount if the Obligors and the Purchaser enter into the Asset Purchase Agreement on terms and conditions satisfactory to the DIP Lenders.
9. **DIP Advances:** Advances under the DIP Facility, including the Initial Advance (each, an "**Advance**") require a written notice to be delivered to the DIP Lenders, four Business Days prior to the requested date of the Advance, or such shorter period as may be agreed by the DIP Lenders in advance (each, an "**Advance Notice**"), which has been approved by the Monitor and executed by an officer of the Borrower setting out: (a) the proposed amount of the requested Advance; (b) the date the Advance is required; (c) the specific use for the proceeds of the Advance in accordance with the Approved Cash Flow (as defined below); (d) certification that the representations and warranties contained herein are true and correct in all respects as of such date; and (e) such other matters required by the DIP Lenders, as advised to the Borrower in advance.
10. **Use of Proceeds:** The proceeds of the DIP Facility shall be used solely by the Borrower in accordance with the Approved Cash Flow, which shall include provision for payment of (i) the Waygar Obligations, (ii) the fees of the Monitor and its counsel and counsel for the Borrower for the period from and after August 18, 2023, (iii) payment on account of interest (except for PIK Interest), and (iv) expenses payable under the DIP Facility and ordinary course payments for the Borrower's working capital needs during the CCAA Proceeding, including, post-filing accounts payable in the ordinary course of the Business and Priority Payables. No proceeds may be used for any other purpose except with the prior written approval of the DIP Lenders.
11. **DIP Lenders' Commitments:** The respective commitment of each DIP Lender (the "Individual Commitment Amounts") is set out in Schedule A hereto.
- The obligations of each DIP Lender shall be several and limited to its Individual Commitment Amount. If the Loan Amount or Additional Loan Amount, as applicable, is reduced on account of a mandatory prepayment

as provided pursuant to Section 24 of this Agreement, the Individual Commitment Amounts will be reduced on a *pro rata* basis.

12.     **Assignment by the Borrower:**     The Borrower shall not be permitted to assign this Agreement or the other DIP Credit Documents without the unanimous prior written consent of the DIP Lenders.
  
13.     **Evidence of Indebtedness:**     The DIP Lenders shall maintain a register evidencing Advances and repayments under the DIP Facility and all other amounts owing from time to time hereunder. The DIP Lenders' register constitutes, in the absence of manifest error, *prima facie* evidence of the Indebtedness of the Borrower to the DIP Lenders pursuant to the DIP Facility.
  
14.     **Interest**     All amounts owing hereunder on account of the principal, overdue interest and expenses shall bear interest at 12% per annum (the "**Interest Rate**"). To the extent permitted by Law, effective immediately upon the occurrence of an Event of Default, all amounts owing hereunder on account of principal, overdue interest and expenses shall bear interest at the Interest Rate plus an additional 2% per annum (the Interest Rate, as increased, the "**Default Rate**").

All interest hereunder shall be computed on the basis of a year of 365 or 366 days (as applicable) and shall accrue and be calculated daily and payable in cash, monthly in arrears on the last Business Day of each month (each, an "**Interest Payment Date**"); provided that unless otherwise agreed by the DIP Lenders, interest accruing at the Default Rate shall be payable in cash on demand, both before and after demand and judgment.

In the case of an Advance, the first Interest Period shall commence on and include the date of such Advance and shall end on and exclude the next following Interest Payment Date. Thereafter, in the case of such Advance, the Interest Period shall commence on and include the Interest Payment Date and end on and exclude the next Interest Payment Date or the Maturity Date, whichever is earlier.

The DIP Lenders may, in their sole discretion, elect to receive the amount of any interest payment (a) entirely in cash, (b) entirely by adding the amount of such accrued and unpaid interest to the principal amount outstanding under the DIP Facility (interest so capitalized, "**PIK Interest**"), or (c) a combination of cash and PIK Interest. All interest, other than (unless otherwise agreed by the DIP Lenders) interest accruing at the Default Rate, shall automatically be paid in the form of PIK Interest unless the DIP Lenders, in their sole discretion, elect to receive the applicable interest payment in cash or with a combination of cash and PIK Interest, in which case the DIP Lenders shall deliver to the Borrower no later than five Business Days prior to the applicable Interest Payment Date, a written notice notifying the Borrower that the DIP Lenders will be requiring the payment of such interest in the form of cash interest or a combination of

cash and PIK Interest (and if a combination thereof, the amount of which will be represented by each of the cash interest and the PIK Interest).

15. **Other Costs and Expenses:** The Borrower shall pay all costs and expenses of the DIP Lenders for all due diligence and all fees, expenses and disbursements of outside counsel, and any financial consultant in connection with the preparation, negotiation, approval and interpretation of the DIP Credit Documents and administration of the DIP Facility, including any costs and expenses incurred by the DIP Lenders in connection with the enforcement of any of the rights and remedies available hereunder or under the DIP Security.
16. **Approved Cash Flow:** Attached hereto as Schedule B is a detailed cash flow projection (the "**Approved Cash Flow**"), which is in form and substance satisfactory to the DIP Lenders and which includes provision for payments on account of any interest and expenses which may be payable under the DIP Facility, rent and other occupancy costs, supplier payments, post-filing accounts payable in the ordinary course of the Business, Priority Payables and the costs and expenses associated with the CCAA Proceeding.
- On Thursday of each week, the Borrower, with the assistance of the Monitor, shall provide the DIP Lenders with a variance report (the "**Cash Flow Variance Report**") certified by the Chief Financial Officer of the Borrower showing on a line-by-line basis actual receipts and disbursements and the total available liquidity for the last day of the prior week for the cumulative period since the commencement of the CCAA Proceeding and for a rolling cumulative four-week period once the CCAA Proceeding has been pending for four weeks and noting therein all variances on a line-by-line basis from the amounts in the Approved Cash Flow and shall include explanations for all material variances. The first Cash Flow Variance Report shall be delivered no later than September 7, 2023.
- The Borrower, with the assistance of the Monitor, may from time to time present the DIP Lenders with a revised budget substantially in the form of the current Approved Cash Flow (the "**Updated Cash Flow**"). Subject to the written approval of the DIP Lenders, the Updated Cash Flow shall thereafter be deemed to be the effective Approved Cash Flow for the purposes hereof.
17. **Conditions Precedent to the Initial Advance:** The DIP Lenders' obligation to make the Initial Advance hereunder from the Loan Amount is subject to, and conditional upon, the satisfaction of all of the following conditions precedent:
- (a) The Obligors' materials in connection with its application for the Initial Order shall be in form and substance satisfactory to the DIP Lenders, acting reasonably, and on notice to Waygar and such other parties as are acceptable to the DIP Lenders;
  - (b) The Court shall have issued the Initial Order in form and substance satisfactory to the DIP Lenders and Waygar, acting reasonably, among other things:

- (i) granting the Obligors protection under the CCAA;
- (ii) appointing the Monitor;
- (iii) authorizing and approving the Initial Advance and approving this Agreement and the other DIP Credit Documents for the purpose of making the Initial Advance; and
- (iv) granting the DIP Charge and the priority of the DIP Charge contemplated in this Agreement,

and the operation and effect of such order shall not have been stayed, amended, modified, reversed, waived, dismissed or appealed (or any such appeal shall have been dismissed with no further appeal therefrom or the applicable appeal periods shall have expired) and no notices of the foregoing shall have been filed, unless otherwise agreed by the DIP Lenders, in their sole discretion;

- (c) The DIP Lenders shall have received an Advance Notice in accordance with the terms hereof;
- (d) All expenses payable to the DIP Lenders have been paid or will be paid from the proceeds of the Initial Advance on the date of the Initial Advance;
- (e) The DIP Lenders shall have received evidence satisfactory to it that the Borrower's Account has been designated by the Borrower and is not a Blocked Account or subject to any Encumbrances other than the Encumbrances arising in connection with the DIP Security;
- (f) The DIP Lenders are satisfied that no person (including Waygar) has cash dominion over any bank accounts or securities accounts of any Obligor and that all Blocked Account Agreements pursuant to which any Obligor is party or otherwise bound have been suspended for a period of 60 days commencing on the date of the LOI, provided that such 60-day suspension period may be terminated at any time if the Purchaser advises Waygar in writing that it will not be proceeding with the Transaction; and
- (g) No Default or Event of Default shall have occurred or will occur as a result of the Initial Advance.

18. **Conditions Precedent to Advances of the Loan Amount (other than the Initial Advance):**

The DIP Lenders' agreement to make any additional Advances available from the Loan Amount is subject to, and conditional upon, the satisfaction of all of the following conditions precedent:

- (a) The Obligors' materials in connection with their application for the amendment and restatement of the Initial Order (if necessary) and Approval and Vesting Order shall be satisfactory to the DIP Lenders;
- (b) The Court shall have issued an Amended and Restated Initial Order (if necessary) in form and substance satisfactory to the DIP Lenders, acting reasonably, among other things:



- (i) authorizing and approving this Agreement and the other DIP Credit Documents;
- (ii) granting the DIP Charge (defined below) and the priority of the DIP Charge contemplated in this Agreement;
- (iii) granting a stay of proceedings until a date that is at least eight weeks after the date of the Initial Order;

and the operation and effect of such order shall not have been stayed, amended, modified, reversed, waived, dismissed or appealed (or any such appeal shall have been dismissed with no further appeal therefrom or the applicable appeal periods shall have expired) and no notices of the foregoing shall have been filed, unless otherwise agreed by the DIP Lenders, in their sole discretion;

- (c) The Amended and Restated Initial Order (if necessary) has not been amended, restated or modified in a manner that materially adversely affects the rights, remedies or interests of the DIP Lenders, in their sole discretion, without the prior written consent of the DIP Lenders;
- (d) The DIP Credit Documents shall be in form and substance satisfactory to the DIP Lenders where applicable, and shall have been executed by the parties thereto;
- (e) The DIP Lenders shall have received an Advance Notice in accordance with the terms hereof;
- (f) All expenses payable to the DIP Lenders have been paid or will be paid from the proceeds of the requested Advance on the date of the applicable Advance;
- (g) The DIP Lenders shall have been satisfied that all Advances have been utilized in a manner that is consistent with the Approved Cash Flow, except as otherwise permitted by the terms of this Agreement;
- (h) There shall be no Encumbrances on the Collateral ranking in priority to or *pari passu* with the DIP Charge other than as expressly permitted by the terms hereof;
- (i) The Borrower and the DIP Lenders shall have agreed on the length of the stay period provided to the Obligors in the Amended and Restated Initial Order;
- (j) The DIP Lenders shall be satisfied in all material respects that the Borrower has complied, and is continuing to comply with, all applicable Laws, regulations, policies in relation to its property and the Business, other than as may be permitted under any order of the Court, which is in form and substance satisfactory to the DIP Lenders;
- (k) No Default or Event of Default shall have occurred or will occur as a result of the requested Advance;

- (l) The DIP Lenders shall have received evidence satisfactory to it that the Borrower's Account has been designated by the Borrower and is not a Blocked Account or subject to any Encumbrances other than the Encumbrances arising in connection with the DIP Security;
- (m) The DIP Lenders shall have been satisfied that all motions, orders and other pleadings and related documents filed or submitted to the Court by the Obligors shall be consistent with the terms hereof and all Court orders shall not be inconsistent with or have an adverse impact in any material respect on the rights, remedies or interests of the DIP Lenders, under the terms of the DIP Facility and the DIP Credit Documents, unless otherwise agreed to by the DIP Lenders;
- (n) The Obligors shall be in compliance in all material respects with all covenants and obligations contained in this Agreement and the other DIP Credit Documents;
- (o) The DIP Lenders shall have been satisfied that has been no termination or cancellation of a material number of customer contracts, or customer contracts representing a material amount of the revenue of the Business; and
- (p) No material adverse change shall have occurred with respect to the business, financial condition, assets or prospects of any of the Obligors.

19. **Conditions Precedent to Advances of the Additional Loan Amount:**

The DIP Lenders' agreement to make any additional Advances available from the Additional Loan Amount is subject to, and conditional upon, the satisfaction of all of conditions precedent set out in Section 18 and the following conditions precedent:

- (a) The Court shall have issued the Approval and Vesting Order in form and substance satisfactory to the DIP Lenders, among other things, approving the Asset Purchase Agreement and the transactions set out therein, and the operation and effect of such order shall not have been stayed, amended, modified, reversed, waived, dismissed or appealed (or any such appeal shall have been dismissed with no further appeal therefrom or the applicable appeal periods shall have expired) and no notices of the foregoing shall have been filed, unless otherwise agreed by the DIP Lenders, in their sole discretion;
- (b) The Approval and Vesting Order has not been amended, restated or modified in a manner that materially adversely affects the rights, remedies or interests of the DIP Lenders, in their sole discretion, without the prior written consent of the DIP Lenders.

20. **DIP Charge:**

All of the obligations of the Obligors under or in connection with the DIP Facility, this Agreement and the other DIP Credit Documents, including

without limitation, all principal, interest, fees and amounts owing in respect of expenses of the DIP Lenders (collectively, the "**DIP Obligations**"), shall be secured by a Court-ordered charge on the Collateral in favour of the DIP Lenders (the "**DIP Charge**").

The DIP Charge shall rank ahead of any and all Encumbrances on the Collateral other than the administration charge not exceeding \$750,000 granted by the Court and the directors and officers charge not exceeding \$600,000 granted by the Court (collectively, the "**Priority Charges**").

21. **DIP Security:** Each Guarantor hereby guarantees in favour of the DIP Lenders the payment and performance of the DIP Obligations of the Borrower and the other Guarantors and if requested by the DIP Lenders shall deliver a stand alone guarantee (in form and substance satisfactory to the DIP Lenders in its sole discretion) to the DIP Lenders.

Notwithstanding, the DIP Lenders shall be permitted to request DIP Security (in form and substance satisfactory to the DIP Lenders in their sole discretion) from the Obligors at any time. The DIP Security shall continue as a first priority Encumbrance on the Collateral in favour of the DIP Lenders subject to subordination only in respect of the Priority Charges and Permitted Encumbrances.

22. **Borrower's Account:** Advances shall be deposited into a bank account to be designated by the Borrower (the "**Borrower's Account**") and utilized by the Borrower in accordance with the terms of this Agreement. The Borrower's Account shall be subject to the DIP Charge and shall not be subject to any other Encumbrances (including the Priority Charges or Permitted Encumbrances).

23. **Repayment and Maturity Date:** All DIP Obligations shall be due and payable on the earliest of the occurrence of any of the following:

- (a) conversion of the CCAA Proceeding into a proceeding under the *Bankruptcy and Insolvency Act* (Canada);
- (b) an Event of Default in respect of which the DIP Lenders have notified the Obligors pursuant to Section 31 that they have elected to accelerate all amounts owing; or
- (c) the date that is eight weeks after the date of the Initial Order, which date may be extended by the DIP Lenders for up to an additional two weeks provided that the DIP Lenders agree to such extension in writing.

(such earliest date, the "**Maturity Date**").

The DIP Lenders' commitment to make Advances under the DIP Facility shall expire on the Maturity Date and all amounts outstanding under the DIP Facility shall be permanently and indefeasibly repaid no later than the Maturity Date, without the DIP Lenders being required to make demand

upon the Borrower or other Obligors or to give notice that the DIP Facility has expired and that the obligations thereunder are due and payable.

If the transaction contemplated by the Asset Purchase Agreement closes on or prior to the Maturity Date, the DIP Obligations shall be assumed by the Purchaser on such terms and conditions as the DIP Lenders and the Purchaser may agree.

24. **Mandatory Prepayments:**

Unless the DIP Lenders provide their prior written consent otherwise and subject to the Priority Charges, the Obligors are required to prepay amounts outstanding under the DIP Facility:

- (a) upon receipt of insurance proceeds or expropriation awards by an Obligor unless the proceeds are, with the prior consent of the DIP Lenders, reinvested by the applicable Obligor to repair or replace the relevant assets prior to the Maturity Date provided that all proceeds of business interruption insurance or liability insurance received by an Obligor shall be paid over to the DIP Lenders;
- (b) upon receipt of net cash proceeds from the sale of any of the Collateral, including pursuant to a liquidation, excluding sales of inventory in the ordinary course and proceeds from the sale of assets to the Purchaser pursuant to the Asset Purchase Agreement ; and
- (c) upon receipt of any extraordinary payments including tax refunds by an Obligor, excluding the HST refund, if any, arising from the A&M Payment (as defined in the LOI), which, for certainty, shall be assigned to Waygar using a commercially reasonable procedure, with input, if necessary, from the tax advisors for the Obligors and Waygar.

Any prepayment required hereunder shall be a permanent reduction of the Loan Amount and Additional Loan Amount, as applicable, and may not be re-borrowed without the prior written consent of the DIP Lenders in their sole discretion.

25. **Payments:**

All payments of principal and expenses hereunder, if applicable, shall be made for value in the full amount due at or before 12:00 noon on the day such amount is due by deposit or transfer thereof to the DIP Lenders or as the DIP Lenders may direct. Payments received after such time shall be deemed to have been made on the next following Business Day. If any payment is due on a day which is not a Business Day, such payment shall be due on the next following Business Day and interest shall accrue until but excluding the actual date of payment. Each payment to be made by the Borrower under this Agreement shall be made in full without deduction, set-off or counterclaim of any kind or for any reason. If any expenses incurred after the date of this Agreement are not paid by the Borrower, the DIP Lenders may, but shall have no duty to do so, pay all such expenses whereupon such amounts shall be added to and form part

of the DIP Obligations and shall reduce the availability under the DIP Facility.

26. **Indemnity:** The Obligors agree to indemnify and hold harmless the DIP Lender, solely in its capacities as lenders under the DIP Facility and not in any other capacity, and their Affiliates, partners and officers, directors, employees, representatives, advisors, solicitors and agents (collectively, the "**Indemnified Persons**") from and against any and all actions, lawsuits, proceedings (including any investigations or inquiries), claims, losses, damages, liabilities or expenses of any kind or nature whatsoever which may be incurred by or suited against or involve any of the Indemnified Persons as a result of, in connection with or in any way related to the DIP Facility, the proposed or actual use of the proceeds of the DIP Facility, this Agreement or the other DIP Credit Documents.
27. **Representations and Warranties:** Each Obligor represents and warrants to the DIP Lenders, upon which the DIP Lenders rely in entering into this Agreement and the other DIP Credit Documents, that:
- (a) The transactions contemplated by this Agreement and the other DIP Credit Documents upon the granting of the Initial Order or Amended and Restated Initial Order:
    - (i) are within the powers of the Obligor and constitute legal, valid and binding obligations of the Obligor;
    - (ii) have been duly authorized, executed and delivered by or on behalf of the Obligor;
    - (iii) do not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) require any consent or approval under, result in a breach or a violation of, or conflict with, any of the terms or provisions of its constating documents or by-laws or any material contracts or instruments to which it is a party or pursuant to which any of its assets or property may be affected;
    - (iv) there is no requirement for the Obligor to make any filing with, give any notice to or obtain any licence, permit, certificate, registration, authorization, consent or approval of, any Governmental Authority as a condition to the lawful consummation of the Transaction, other than filings which may be made to register, renew or otherwise record the DIP Charge or any DIP Security;
  - (b) The Business has been and will continue to be conducted in material compliance with all applicable Laws of each jurisdiction in which each the Business has been or is being carried on subject to the provisions of any court order made after the date of the Initial Order and the CCAA;
  - (c) Each Obligor has obtained any material Authorizations for the operation of the Business, which Authorizations remain, and after

entering into the DIP Facility will remain, in full force and effect. No proceedings have been commenced to revoke or amend any such Authorizations;

- (d) Each Obligor has made all deductions and except as reflected in the Approved Cash Flow, has paid its obligations Priority Payables as required by applicable Law and is not in arrears in respect of these obligations;
- (e) Each Obligor does not have any defined benefit pension plans or similar plans and the Obligor is in material compliance with all applicable Law respecting its employee's employment and all collective bargaining agreements to which it is a party or otherwise bound;
- (f) Except as otherwise disclosed to the DIP Lender in writing prior to the date hereof, each Obligor is current on its payment obligations for rent and other occupancy costs and expenses in respect of any premises that it leases;
- (g) All obligations of each Obligor (including fiduciary, funding, investment and administrative obligations, if any) required to be performed in connection with employee benefit plans of the Obligor have been performed on a timely basis;
- (h) Each Obligor has filed all Tax returns which were required to be filed, paid all Taxes (including interest and penalties) which are due and payable; and
- (i) All information provided by or on behalf of each Obligor to the DIP Lenders for the purposes of or in connection with this Agreement or any transaction contemplated herein is, true and accurate in all material respects on the date as of which such information was provided and not incomplete by omitting to state any fact necessary to make such information (taken as a whole) not materially misleading at such time in light of the circumstances under which such information was provided.

28. **Affirmative Covenants:**

In addition to all other covenants and obligations contained herein, each Obligor agrees and covenants to perform and do each of the following until the DIP Facility is permanently and indefeasibly repaid and cancelled or assumed on the written consent of the DIP Lenders:

- (a) Submit to the Court the Initial Order, Amended and Restated Initial Order, the Approval and Vesting Order, and any other Court orders which are being sought by the Obligor in a form confirmed in advance to be satisfactory to the DIP Lenders, subject to any amendments that are required by the Court or the Obligors that are acceptable to the DIP Lenders;
- (b) Comply with the provisions of Court orders made in the CCAA Proceeding, including the Initial Order, Amended and Restated Initial Order and Approval and Vesting Order;

- (c) Utilize all Advances in a manner that is consistent with the Approved Cash Flow, subject to weekly variances due to variations in the timing of projected receipts and disbursements, or as otherwise agreed to with the written approval of the DIP Lenders;
- (d) Deliver to the DIP Lenders any updated Approved Cash Flows and Cash Flow Variance in accordance with this Agreement and such other reporting and other information from time to time as is reasonably requested by the DIP Lenders;
- (e) Allow the DIP Lenders, their partners, directors, officers, employees, agents, advisors and representatives full access to all information, documentation and premises of the Obligors and their Affiliates during normal business hours and cause management thereof to fully cooperate with any partners, directors, officers, employees, agents, advisors and representatives to the DIP Lenders;
- (f) Upon request of the DIP Lenders, provide updates regarding the status of the CCAA Proceeding, including any information which may otherwise be confidential, subject to same being maintained as confidential by the DIP Lenders;
- (g) No later than three Business Days after receiving a payout statement in respect of the Waygar Obligations, remit payment to Waygar in an amount equal to the Waygar Obligations;
- (h) Preserve, renew, maintain and keep in full force its corporate existence and its Authorizations required in respect of the Business or any of the Collateral;
- (i) Use all reasonable efforts to keep the DIP Lenders apprised on a timely basis of all material developments with respect to the Business and affairs of the Borrower and its subsidiary;
- (j) Obtain the prior written consent of the Majority Lenders prior to disseminating general written communications to any customer, supplier or employee group, landlords and other stakeholders in respect of this DIP Facility, the DIP Lenders, the Asset Purchase Agreement, the Purchaser (as defined in the Asset Purchase Agreement) or the CCAA Proceeding;
- (k) Subject to the provisions of any Court order (including the Amended and Restated Initial Order) in each case that are not otherwise inconsistent with the terms of this Agreement, in all material respects, preserve current relations with, and the current goodwill of, customers, suppliers, employees, landlords, other stakeholders, any Governmental Authority and all other Persons having material business relationships with the Obligor to the extent such relationships are necessary for the Purchaser to conduct the Business or relate to the Purchased Assets or Assumed Liabilities (each as defined in the Asset Purchase Agreement);

- (l) Conduct the Business and preserve, protect and maintain the Collateral in the ordinary course of Business;
- (m) Maintain in full force all policies and contracts of insurance that are now in effect (or renewals thereof) under which the Obligor, the Business or any of the Collateral is insured;
- (n) Pay all rent and other occupancy costs and expenses in respect of any leased premises on terms mutually agreed between the Obligor and applicable landlords;
- (o) Except to the extent otherwise agreed by the DIP Lenders, pay all applicable Priority Payables and all other amounts necessary to preserve the Collateral to avoid any Encumbrance thereon and to carry on the business of each Obligor;
- (p) Forthwith notify the DIP Lenders of the occurrence of any event or circumstance that may constitute a material adverse change from the Approved Cash Flow;
- (q) Forthwith notify the DIP Lenders of the occurrence of any Default or Event of Default;
- (r) Forthwith notify the DIP Lenders of the cancellation of any customer contracts
- (s) Provide the DIP Lenders with draft copies of all motions, applications, proposed orders or other material or documents that any of them intends to file within the CCAA Proceeding at least three days prior to any service of such materials;
- (t) Comply in all material respects with all applicable Laws; Execute and deliver the DIP Credit Documents, in form and substance satisfactory to the DIP Lenders;
- (u) Pay when due all principal, interest, fees and other amounts payable by the Obligor under this Agreement and under any other DIP Credit Documents; and
- (v) Ensure that the representations and warranties remain true at all times.

29. **Negative Covenants:**

Each Obligor covenants and agrees not to do the following, other than with the prior written consent of the DIP Lenders from and after the date hereof:

- (a) Make any payment of principal or interest in respect of Indebtedness existing as of the date of the Initial Order or declare or pay any dividends except as contemplated by the Approved Cash Flow;
- (b) Except for the DIP Obligations or any Indebtedness secured by Permitted Encumbrances or the Priority Charges, create, incur or permit to exist any Indebtedness, or provide or seek or support a motion by another party to provide Indebtedness;



- (c) Except for Permitted Encumbrances, the Priority Charges and the DIP Charge, create, permit to exist any Encumbrance, or provide or seek or support a motion by another party to provide an Encumbrance, upon any of the Collateral;
- (d) Make any payments outside the ordinary course of the Business, subject to the obligation to comply with the Approved Cash Flow;
- (e) Make any investments in or loans to or guarantee the Indebtedness or obligations of any other Person or entity or permit its Affiliates to do so;
- (f) Change its jurisdiction of incorporation or registered office;
- (g) Enter into, amend or suffer to exist any transaction or series of related transactions with any Affiliate;
- (h) Except as may be required under the Asset Purchase Agreement, change its name, fiscal year end or accounting policies or amalgamate, consolidate with, merge into, dissolve or enter into any similar transaction with any other entity;
- (i) Terminate, without cause, any key employees of any Obligor or add, remove or replace any directors or officers of any Obligor;
- (j) Enter any restrictive covenants or agreements which might affect the value or liquidity of any Collateral;
- (k) Cease to carry on the Business or activities as they are currently being conducted or change its operations or business practices;
- (l) Transfer the proceeds of any Advance to the Blocked Account;
- (m) Except for a sale pursuant to the Asset Purchase Agreement, sell, assign, lease, convey or otherwise dispose of any of the Collateral except for sales in the ordinary course of the Business;
- (n) Disclaim any contract that is material to the Business;
- (o) Amend or renew, extend the term, disclaim or accept the surrender of any real property lease except as otherwise contemplated or required under or in the Asset Purchase Agreement and approved by the Monitor;
- (p) Increase any termination or severance entitlements or pay any termination or severance payments or modify any compensation or benefit plans whatsoever;
- (q) Except as otherwise contemplated in any Court order, establish or make any retention or bonus payments;
- (r) Enter into any settlement agreement or agree to any settlement arrangements with any regulatory authority or in connection with any material litigation, arbitration, other investigations, proceedings or disputes or other similar proceedings which are threatened or pending against the Obligor;
- (s) Enter into any amalgamation, reorganization, liquidation, dissolution, winding-up, merger or other transaction or series of

transactions whereby, directly or indirectly, all or any significant portion of the undertaking, property or assets of any Obligor would become the property of any other Person or Persons;

- (t) Amend or seek to amend the Initial Order, the Amended and Restated Initial Order or the Approval and Vesting Order, except to amend and restate the Initial Order as may be permitted by this Agreement; and
- (u) Seek or obtain any order from the Court that adversely affects the DIP Lenders.

30. **Events of Default:**

The occurrence of any one or more of the following events shall constitute an event of default (each, an "**Event of Default**") under this Agreement:

- (a) Any Court order is issued, dismissed, stayed, reversed, vacated, amended or restated and such issuance, dismissal, stay, reversal, vacating, amendment or restatement adversely affects or would reasonably be expected to adversely affect the interest of the DIP Lenders in a material manner, unless the DIP Lenders have given their prior written consent thereto, including the issuance of a Court order:
  - (i) appointing a receiver and manager, receiver, interim receiver or similar official in respect of an Obligor;
  - (ii) terminating, lifting or amending the stay imposed within the CCAA Proceeding in a manner which, in the opinion of the DIP Lenders, in its sole and absolute determination is prejudicial to the DIP Lenders;
  - (iii) granting any other claim or Encumbrance of equal or priority status to that of the DIP Charge, other than the Priority Charges;
  - (iv) staying, reversing, vacating or otherwise modifying the DIP Credit Documents or prejudicially affecting the DIP Lenders or the Collateral;
  - (v) staying, reversing, vacating or otherwise modifying the Asset Purchase Agreement or prejudicially affecting the Transaction contemplated thereunder; and
  - (vi) proposing to affect the purchase price or the payment terms thereof provided for in the Asset Purchase Agreement in any material respect, unless Waygar has given its prior written consent thereto,
- (b) Failure of an Obligor to diligently oppose any party that brings an application or motion for any of the relief set out in subsection 30(a) above and/or the failure to secure the dismissal of such motion or application within 15 days from the date that such application or motion is brought (provided no affirmative Court order is issued on such motion or application during such period);

- (c) The CCAA Proceeding is terminated or converted to bankruptcy proceedings;
- (d) Failure of the parties to the Asset Purchase Agreement to obtain any regulatory approvals needed to consummate the Transaction contemplated therein;
- (e) Failure of an Obligor to pay any amounts when due and owing hereunder;
- (f) The Obligor ceases to carry on or maintain the Business or its assets in the ordinary course of the Business in compliance with the covenants contained in this Agreement, except where such cessation is otherwise consented to in advance in writing by the DIP Lenders;
- (g) Any representation or warranty made or given hereunder or under any of the other DIP Credit Documents by any Obligor shall be incorrect or misleading in any material respect when made or when the Court order approving the DIP Credit Documents is made;
- (h) A liability arises or an event occurs, including any change in the Business, assets, or conditions, financial or otherwise, of the Borrower that will, in the DIP Lenders' judgment, acting reasonably, materially further impair the financial condition of any of the Obligor's, or its operations or ability to comply with its obligations under this Agreement or any other DIP Credit Documents, the Asset Purchase Agreement or any Court order;
- (i) Any material violation or breach of any court order by an Obligor;
- (j) Failure of an Obligor to perform or comply with any term or covenant of this Agreement or any other DIP Credit Documents;
- (k) Any proceeding, motion or application is commenced or filed by the Obligors, or if commenced by another party, supported or otherwise consented to by the Obligors, seeking the invalidation, subordination or other challenging of the terms of the DIP Facility, the DIP Lenders' Charge, this Agreement or any of the other DIP Credit Documents or the Asset Purchase Agreement;
- (l) A negative variance of the net cash flows of more than 15% compared to the Approved Cash Flow on a cumulative basis since the beginning of the period covered thereby commencing two weeks after the Initial Advance, provided that the payment of the DIP Lenders' expenses pursuant to this Agreement (if paid prior to Maturity Date) shall be excluded from such calculation;
- (m) If an Obligor makes any material payments of any kind not permitted by this Agreement, the Approved Cash Flow or any order of the Court;
- (n) Any plan is filed or sanctioned by the Court in a form and in substance that is not acceptable to the DIP Lenders if such plan does not either provide for the repayment of the obligations under

the DIP Facility in full by the Maturity Date or designate the DIP Lenders as unaffected by such plan;

- (o) If the Monitor, counsel to the Monitor, or counsel to the Obligors withdraws its services on behalf of the Obligors and/or terminates its engagement with the Obligors and a replacement professional acceptable to the DIP Lenders is not appointed or engaged, as applicable, or if alternative arrangements acceptable to the DIP Lenders are not made within 5 Business Days;
- (p) the occurrence of any event which has a Material Adverse Effect; and
- (q) If an Obligor terminates the Asset Purchase Agreement or fails to complete the Transaction contemplated therein on or before the Maturity Date.

31. **Remedies:**

Upon the occurrence of an Event of Default, the DIP Lenders may in its discretion elect on prior written notice to the Borrower and the Monitor, to set-off, consolidate or accelerate all amounts outstanding under the DIP Facility and other DIP Credit Documents and declare such amounts to be immediately due and payable without any periods of grace. Upon the occurrence of an Event of Default, the DIP Lenders may:

- (a) Terminate the DIP Facility;
- (b) Apply for a Court order, on terms satisfactory to the Monitor and the DIP Lenders, providing the Monitor with the power, in the name of and on behalf of the Borrower, to take all necessary steps in the CCAA Proceeding to realize on the Collateral;
- (c) Exercise the powers and rights of a secured party; and
- (d) Exercise all such other rights and remedies available to the DIP Lenders under the DIP Credit Documents, the Initial Order and applicable Law.

32. **Taxes:**

All payments by an Obligor under this Agreement and the other DIP Credit Documents, including any payments required to be made from and after the exercise of any remedies available to the DIP Lenders upon an Event of Default, shall be made free and clear of, without reduction for or on account of, any present or future Taxes; provided, however, that if any Taxes are required by applicable Law to be withheld ("**Withholding Taxes**") from any amount payable to the DIP Lenders under this Agreement or under any DIP Credit Documents, the amounts so payable to the DIP Lenders shall be increased to the extent necessary to yield to the DIP Lenders on a net basis after payment of all Withholding Taxes, the amount payable under such DIP Credit Documents at the rate or in the amount specified in such DIP Credit Documents and the Obligors shall provide evidence satisfactory to the DIP Lenders that the Taxes have been so withheld and remitted.

33. **Further Assurances:** The Obligors shall, at their own expense, from time to time do, execute and deliver or will cause to be done, executed and delivered, all such further acts, documents (including, without limitation, certificates, declarations, affidavits, reports and opinions) as the DIP Lenders may reasonably request for the purpose of giving effect to this Agreement and the other DIP Credit Documents.
34. **Entire Agreement:** This Agreement and the other DIP Credit Documents and the Asset Purchase Agreement constitutes the entire agreement between the parties related to the subject matter hereof. To the extent there is any inconsistency between this Agreement and any of the other DIP Credit Documents this Agreement shall prevail.
35. **Amendments and Waivers:** No waiver or delay on the part of the DIP Lenders in exercising any right or privilege hereunder or under any other DIP Credit Documents will operate as a waiver hereof or thereof unless made in writing and delivered in accordance with the terms of this Agreement.
- This Agreement may not be amended or waived except by an instrument in writing signed by each of the Obligors and the DIP Lenders. The parties to this Agreement covenant that any material amendments to the final execution version of the Asset Purchase Agreement (and any relevant Court order associated therewith) that are proposed to affect the purchase price provided for therein or the payment terms thereof may occur upon consultation with the Obligors, Waygar and the DIP Lenders, such that any changes to the material terms of the Asset Purchase Agreement that are proposed to affect the purchase price or the payment terms thereof will be provided to the Obligors, Waygar and the DIP Lenders in reasonable advance of execution.
36. **Severability:** Any provision in this Agreement or any other DIP Credit Documents which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or effecting the validity of enforceability of such provision in any other jurisdiction.
37. **No Third Party Beneficiary:** No Person, other than the Obligors and the DIP Lenders are entitled to rely upon this Agreement and the parties expressly agree that this Agreement does not confer rights upon any party not a signatory hereto.
38. **Counterparts and Facsimile Signatures:** This Agreement may be executed in any number of counterparts delivered by e-mail, including in PDF format, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same instrument. Any party may execute this Agreement by signing any counterpart of it.

39. **Assignment:** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

40. **Notices:** Any notice, request or other communication hereunder to any of the parties shall be in writing and be well and sufficiently given if delivered personally or sent by electronic mail to the attention of the Person as set forth below:

in the case of a notice to the Obligor at:

**[Note to Gardiner Roberts: Please provide contact details for Obligor]**

Quality Sterling Group  
505 Cityview Blvd.  
Unit# 1  
Vaughan, ON L4H 0L8

Attention John Pacione / Joseph D Pacione, Co CEOs

Emails [jpacione@qsg.ca](mailto:jpacione@qsg.ca) / [jdp@qsg.ca](mailto:jdp@qsg.ca)

with a copy (which shall not constitute notice) to:

Gardiner Roberts LLP  
Bay Adelaide Centre – East Tower  
22 Adelaide Street West, Suite 36  
Toronto, ON M5H 4E3

Attention: Christopher Besant  
Email: [cbesant@grlp.com](mailto:cbesant@grlp.com)

in the case of a notice to the DIP Lenders at:

c/o Ironbridge Equity Partners  
Bay Adelaide Centre – East Tower  
22 Adelaide St. West, Suite 3520  
Toronto, ON M5H 4E3

Attention: Alan G. Sellery / Peter Dowse

Email: [asellery@ironbridgeequity.com](mailto:asellery@ironbridgeequity.com)  
[pdowse@ironbridgeequity.com](mailto:pdowse@ironbridgeequity.com)

In either case, with a copy to the Monitor:

RSM Canada Limited  
11 King Street West, Suite 700  
Toronto, ON M5H 4C7

Attention: Arif Dhanani  
Email: [arif.dhanani@rsmcanada.com](mailto:arif.dhanani@rsmcanada.com)

With a copy to, which shall not constitute notice:

Goodmans LLP  
Bay Adelaide Centre – West Tower  
333 Bay Street, Suite 3400  
Toronto, ON M5H 2S7

Attention: Joe Latham  
Email: [jlatham@goodmans.ca](mailto:jlatham@goodmans.ca)

Any notice delivered or transmitted to a Person as provided above shall be deemed to have been given and received on the day it is delivered or transmitted, provided that it is delivered or transmitted on a Business Day prior to 5:00 p.m. local time in the place of delivery or receipt. However, if the notice is delivered or transmitted after 5:00 p.m. local time or if such day is not a Business Day then the notice shall be deemed to have been given and received on the next Business Day.

41. **Governing Law and Jurisdiction:** This Agreement shall be governed by, and construed in accordance with, the Laws of the Province of Ontario and the federal Laws of Canada applicable therein.
42. **Definitions:** For the purposes of this Agreement, unless context otherwise requires, the following terms have the respective meanings set out below, and grammatical variations of such terms have corresponding meanings:
- "**Additional Loan Amount**" has the meaning given to that term in Section 7;
- "**Advance**" has the meaning given to that term in Section 9;
- "**Advance Notice**" has the meaning given to that term in Section 9;
- "**Affiliate**" of any Person means, at the time such determination is being made, any other Person controlling, controlled by or under common control with such first Person, where "control" means the possession, directly or indirectly, of the power to direct the management and policies of such Person, whether through the ownership of voting securities or otherwise;
- "**Agreement**" means this Agreement, including all Schedules, as it may be modified, amended, revised, restated, replaced, supplemented or otherwise changed from time to time and at any time hereafter;
- "**Amended and Restated Initial Order**" means an order, or orders, of the Court, in form and substance satisfactory to the DIP Lenders and obtained on application made on notice to, such Persons as the DIP Lenders and Obligors determine, acting reasonably, among other things, amending and restating the Initial Order, approving the DIP Facility and granting the DIP Charge and granting the Obligors an extension of the stay of proceedings;

**"Approval and Vesting Order"** means an order, or orders, of the Court, in form and substance satisfactory to the DIP Lenders and obtained on application made on notice to, such Persons as the DIP Lenders and the Obligors determine, acting reasonably, approving the Asset Purchase Agreement and the Transaction contemplated therein and vesting in and to DIP Lenders the Purchased Assets (as defined in the Asset Purchase Agreement) free and clear of all Encumbrances (other than Permitted Encumbrances);

**"Approved Cash Flow"** has the meaning given to that term in Section 16;

**"Asset Purchase Agreement"** means the agreement of purchase and sale providing for the sale of all, or substantially all of the assets of the Obligors to the Purchaser free and clear of all Encumbrances;

**"Authorization"** means, with respect to any Person, any order, permit, approval, consent, waiver, licence or similar authorization of any Governmental Authority related to the Collateral or the Business;

**"Blocked Account"** means any account that is currently subject to a blocked accounts agreement between Toronto-Dominion Bank, and Waygar Capital Inc., as agent for Ninepoint Canadian Senior Debt Master Fund L.P. and the respective Obligor, which may include but is not limited to account no. 5308827 in the name of Quality Rugs of Canada Limited at branch no. 14822, account no. 5308835 in the name of Malvern Contract Interiors Limited at branch no. 14822, account no. 5308851 in the name of Timeline Floors Inc. at branch no. 14822, and account no. 5213755 in the name of Weston Hardwood Design Centre Inc. at branch no. 14822 ;

**"Borrower"** has the meaning given to that term in the recitals;

**"Borrower's Account"** has the meaning given to that term in Section 22;

**"Business"** means the business of supplying, distributing and installing various floor covering solutions and other related products operated by the Obligors.

**"Business Day"** means any day other than a Saturday, Sunday or statutory holiday in the Province of Ontario;

**"Cash Flow Variance Report"** has the meaning given to that term in Section 16;

**"CAA"** has the meaning given to that term in the recitals;

**"CAA Proceeding"** has the meaning given to that term in the recitals;

**"Collateral"** means all now-owned and hereafter-acquired assets and property of the Obligors, real and personal, tangible or intangible and all proceeds therefrom, including the Borrower's Account and all assets used in the Business;

**"Court"** has the meaning given to that term in the recitals;



**"Default"** means the occurrence or existence of any event, fact or circumstances, that with the giving of notice, passage of time, or both, would constitute an Event of Default;

**"Default Rate"** has the meaning given to that term in Section 14;

**"DIP Charge"** has the meaning given to that term in Section 20;

**"DIP Credit Documents"** means this Agreement and, if applicable, the DIP Security, and any other documents in respect of the DIP Facility as may be requested by the DIP Lenders;

**"DIP Facility"** has the meaning given to that term in Section 7;

**"DIP Obligations"** has the meaning given to that term in Section 20;

**"DIP Security"** means security documents granted by the Obligors providing for a security interest in the Collateral and related personal property security registrations made in favour of the DIP Lenders in connection with such security interest together with such confirmations, financing statements, renewals, amendments, discharges, insurance endorsements, opinions or other documents as may be requested by the DIP Lenders as security for the DIP Obligations;

**"Encumbrances"** means any encumbrance, lien, charge, hypothec, pledge, mortgage, title retention agreement, security interest of any nature, adverse claim, exception, reservation, easement, encroachment, servitude, restriction on use, right of occupation, any matter capable of registration against title, option, right of first offer or refusal or similar right, restriction on voting (in the case of any voting or equity interest), right of pre-emption or privilege or any contract to create any of the foregoing;

**"Event of Default"** has the meaning given to that term in Section 30;

**"Governmental Authority"** means any government, regulatory authority, governmental department, agency, commission, bureau, official, minister, Crown corporation, court, body, board, tribunal or dispute settlement panel or other law or regulation-making organization or entity: (a) having or purporting to have jurisdiction on behalf of any nation, province, territory, state or other geographic or political subdivision thereof; or (b) exercising, or entitled or purporting to exercise, any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power;

**"Hedging Obligations"** means, with respect to any Person, the net payment obligations of such Person outstanding under (a) interest rate or currency swap agreements, interest rate or currency cap, collar or floor agreements and (b) any other agreements or arrangements entered into in order to protect such Person against fluctuations in commodity prices, interest rates or currency exchange rates;

**"Indebtedness"** of any Person means, at any date, without duplication, (a) all obligations of such Person for borrowed money, including by way of overdraft and drafts or orders accepted as representing extensions of credit, (b) all obligations of such Person evidenced by bonds, debentures, the face amount of all bankers' acceptances, letters of credit, letters of

guarantee and similar instruments, notes, letters of credit or other similar instruments, including obligations under any arrangement with any Person providing for the leasing by the Borrower of any property, which property has been or is to be sold or transferred by the Borrower to such Person in contemplation of such leasing, (c) all obligations of such Person to pay the deferred purchase price of property or services, (d) all obligations of such Person as lessee which are capitalized in accordance with generally accepted accounting principles consistently applied in Canada, (e) all indebtedness, liabilities and obligations secured by an Encumbrance on any asset of such Person, whether or not the same is otherwise indebtedness, liabilities or obligations of such Person, (f) all indebtedness, liabilities and obligations of others which is, directly or indirectly, guaranteed by such Person or which such Person has agreed (contingently or otherwise) to purchase or otherwise acquire, (g) all indebtedness, liabilities and obligations in respect of financial instruments which are classified as a liability on the balance sheet of such Person, (h) all obligations of such Person to otherwise assure a creditor against loss, (i) all Hedging Obligations and (j) all obligations of such Person for trade accounts and contracts;

**"Indemnified Persons"** has the meaning given to that term in Section 26;

**"Initial Advance"** has the meaning given to that term in Section 7;

**"Initial Order"** means an order, or orders, of the Court, in form and substance satisfactory to the DIP Lenders and obtained on application made on notice to, such Persons as the DIP Lenders and Obligors determine, acting reasonably, among other things, granting the Obligors protection under the CCAA, appointing the Monitor, approving the Initial Advance and approving the DIP Facility and granting the DIP Charge and approving the Initial Advance;

**"Interest Payment Date"** has the meaning given to that term in Section 14;

**"Interest Period"** has the meaning given to that term in Section 7;

**"Interest Rate"** has the meaning given to that term in Section 14;

**"Law"** means any federal, provincial, county, territorial, district, municipal, local, foreign, supranational or international law, statute, ordinance, regulation, by-law, rule, code, treaty or rule of common law or otherwise of, or any order, judgment, injunction, decree or similar authority enacted, issued, promulgated, enforced or entered by, any Governmental Authority;

**"Loan Amount"** has the meaning given to that term in Section 7;

**"LOI"** means the letter of intent between Ironbridge Equity Partners Management Limited and the Obligors, as such letter may be amended, modified, supplemented or amended and restated from time to time;

**"Material Adverse Effect"** means any event, occurrence or condition which has a material adverse effect on or results in a material adverse change in (a) the Business, assets, operations, liabilities, condition,

financial or otherwise, or prospects of any of the Obligors; or (b) the ability of any of the Obligors to perform its DIP Obligations in accordance with the terms of this Agreement or any of the other DIP Credit Documents, or (c) the validity or enforceability of any of the DIP Credit Documents or the rights or remedies of DIP Lenders thereunder, or (d) the amount which the DIP Lenders would be likely to receive (after giving effect to delays in payment and costs of enforcement) upon the liquidation of the Collateral or (e) the DIP Charge or the DIP Security or the perfection or priority thereof;

**"Maturity Date"** has the meaning given to that term in Section 23;

**"Maximum Amount"** has the meaning given to that term in Section 7;

**"Monitor"** means RSM Canada Limited, as the court-appointed monitor of the Obligors;

**"Obligors"** means the Borrower and the Guarantors, or any combination of them as usage dictates;

**"Permitted Encumbrances"** means the personal property registrations in respect of a purchase-money security interest for unpaid and uninstalled inventory supplied by Mohawk Carpet Distribution, Inc. bearing registration number 2019104 1537 6783;

**"Person"** means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Authority, and where the context requires any of the foregoing when they are acting as trustee,

**"PIK Interest"** has the meaning given to that term in Section 14;

**"Priority Charges"** has the meaning given to that term in Section 20;

**"Priority Payables"** means HST, all sales Tax and any amount payable or accrued by Borrower which is secured by an Encumbrance which ranks or is capable of ranking prior to or *pari passu* with the Encumbrances created in connection with the DIP Charge (other than the Permitted Encumbrances and Priority Charges) including amounts accrued or owing for wages, vacation pay, termination pay (only where it is a priority payable), employee deductions, construction trusts, construction liens, or Taxes, and other statutory or other claims that have or may have priority over, or rank *pari passu* with, the Encumbrances created in connection with the DIP Charge;

**"Tax"** and **"Taxes"** means any taxes, duties, fees, premiums, assessments, imposts, levies and other charges of any kind whatsoever imposed by any Governmental Authority, including all interest, penalties, fines, additions to tax or other additional amounts imposed by any Governmental Authority in respect thereof, and including those levied on, or measured by, income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, excise, withholding, business, franchising, property, development, occupancy, payroll, health, social services, education, employment and all social

security taxes, all surtaxes, all customs, duties and import and export taxes, countervail and anti-dumping, all licence, franchise and registration fees and all employment insurance, health insurance and Canada, and other government pension plan premiums or contributions;

**"Transaction"** means the asset purchase transaction whereby the Purchaser purchases the assets used in the Business from the Obligors pursuant to the Asset Purchase Agreement;

**"Updated Cash Flow"** has the meaning given to that term in Section 16;

**"Waygar"** means Ninepoint Canadian Senior Debt Master Fund L.P.;

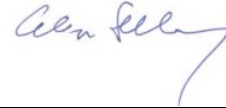
**"Waygar Obligations"** means the amount of the Indebtedness owing by the Obligors to Waygar in respect of interim financing that was provided during the period between August 4, 2023 and August 25, 2023 and authorized by an order of the Court made on August 4, 2023, net of the amount of \$707,000, but inclusive of all of Waygar's reasonable costs and fees incurred in respect of said interim financing;

**"Withholding Taxes"** has the meaning given to that term in Section 32.

**DIP LENDER:**

**IRONBRIDGE EQUITY PARTNERS IV,  
LP, BY ITS GENERAL PARTNER,  
IRONBRIDGE EQUITY PARTNERS  
MANAGEMENT IV LIMITED**

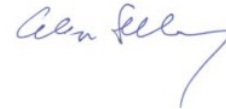
by



**DIP LENDER:**

**IRONBRIDGE EQUITY PARTNERS  
(INTERNATIONAL) IV, LP, BY ITS  
GENERAL PARTNER, IRONBRIDGE  
EQUITY PARTNERS MANAGEMENT IV  
LIMITED**

by



**BORROWER:**

**QUALITY RUGS OF CANADA LIMITED**

by

**GUARANTORS:**

**MALVERN CONTRACT INTERIORS  
LIMITED**

by

**DIP LENDER:**

**IRONBRIDGE EQUITY PARTNERS IV,  
LP, BY ITS GENERAL PARTNER,  
IRONBRIDGE EQUITY PARTNERS  
MANAGEMENT IV LIMITED**

by \_\_\_\_\_

**DIP LENDER:**

**IRONBRIDGE EQUITY PARTNERS  
(INTERNATIONAL) IV, LP, BY ITS  
GENERAL PARTNER, IRONBRIDGE  
EQUITY PARTNERS MANAGEMENT IV  
LIMITED**

by \_\_\_\_\_

**BORROWER:**

**QUALITY RUGS OF CANADA LIMITED**

by  \_\_\_\_\_

**GUARANTORS:**

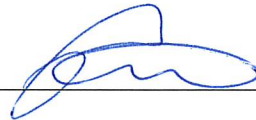
**MALVERN CONTRACT INTERIORS  
LIMITED**

by  \_\_\_\_\_

**WESTON HARDWOOD DESIGN  
CENTRE INC.**

by  \_\_\_\_\_


**ONTARIO FLOORING LTD.**

by  \_\_\_\_\_

**TIMELINE FLOORS INC.**

by  \_\_\_\_\_

**QUALITY COMMERCIAL CARPET  
CORPORATION**

by  \_\_\_\_\_

**PATJO HOLDINGS LTD.**

by  \_\_\_\_\_

**SCHEDULE A**

**DIP LENDERS' COMMITMENTS**

<b>Lender</b>	<b>Loan Amount</b>	<b>Additional Loan Amount</b>	<b>Total</b>
IRONBRIDGE EQUITY PARTNERS IV, LP	\$2,911,944.53	\$1,164,777.81	\$4,076,722.35
IRONBRIDGE EQUITY PARTNERS (INTERNATIONAL) IV, LP	\$2,088,055.47	\$835,222.19	\$2,923,277.65
<b>Total</b>	<b>\$5,000,000</b>	<b>\$2,000,000</b>	<b>\$7,000,000</b>



**SCHEDULE B**  
**APPROVED CASH FLOW**

Quality Rugs of Canada Limited, Quality Commercial Carpet Corporation, Malvern Contract Interiors Limited and Timeline Floors Inc. & associated entities (the "CCAA Applicants" or the "Group")  
 For the 13 weeks ending November 24, 2023  
 in CAD 000's

week > end/g >	Initial Stay Period													Total				
	Week 1 01-Sep	Week 2 08-Sep	Week 3 15-Sep	Week 4 22-Sep	Week 5 29-Sep	Week 6 06-Oct	Week 7 13-Oct	Week 8 20-Oct	Week 9 27-Oct	Week 10 03-Nov	Week 11 10-Nov	Week 12 17-Nov	Week 13 24-Nov					
<b>Receipts</b>																		
Accounts receivable collections	1,748	3,936	3,006	1,606	1,497	3,350	2,191	2,166	1,677	3,482	2,066	2,049	2,127	30,902				
<b>Disbursements</b>																		
Purchases of materials	1,335	1,467	1,553	1,483	1,492	1,501	1,413	1,404	1,317	1,201	1,174	1,167	1,380	17,889				
Payments to subcontractors	627	627	756	945	945	945	966	773	966	966	751	734	718	10,722				
Payroll and benefits	496	25	496	25	496	25	496	25	496	25	496	25	496	3,621				
Employee Commissions	-	-	39	-	-	-	39	-	-	-	-	39	-	116				
Rent	125	-	-	-	-	125	-	-	-	125	-	-	-	375				
Selling, general & admin.	78	78	78	78	78	78	78	78	78	78	78	78	78	1,008				
Sales taxes	-	-	325	-	-	-	325	-	-	-	325	-	-	975				
Professional fees	326	130	251	90	115	115	101	50	20	15	15	15	30	1,273				
Financing expenses	12	6	6	6	10	10	12	15	15	15	15	15	16	153				
Contingency	50	50	25	25	25	10	10	10	10	10	10	10	5	250				
<b>Total operating disbursements</b>	<b>3,048</b>	<b>2,383</b>	<b>3,529</b>	<b>2,653</b>	<b>3,162</b>	<b>2,810</b>	<b>3,439</b>	<b>2,353</b>	<b>2,902</b>	<b>2,435</b>	<b>2,863</b>	<b>2,083</b>	<b>2,723</b>	<b>36,382</b>				
<b>Net cash flow</b>	<b>(1,299)</b>	<b>1,553</b>	<b>(523)</b>	<b>(1,047)</b>	<b>(1,664)</b>	<b>540</b>	<b>(1,248)</b>	<b>(187)</b>	<b>(1,225)</b>	<b>1,046</b>	<b>(797)</b>	<b>(34)</b>	<b>(596)</b>	<b>(5,480)</b>				
<b>Opening cash balance</b>	-	-	1,553	1,030	-	-	540	-	-	-	1,046	250	216	-				
<b>DIP funding required</b>	1,299	-	-	17	1,664	-	708	187	1,225	-	-	-	-	380	5,480			
<b>Ending cash balance</b>	-	1,553	1,030	-	-	540	-	-	-	1,046	250	216	-	-	-			
<b>Interim DIP Facility</b>																		
Opening Interim Facility balance	1,500	2,799	2,799	2,799	2,816	4,480	4,480	5,188	5,375	6,600	6,600	6,600	6,600	6,600				
Draws	1,299	-	-	17	1,664	-	708	187	1,225	-	-	-	-	-	380	5,480		
<b>Ending Interim DIP Facility balance</b>	<b>2,799</b>	<b>2,799</b>	<b>2,799</b>	<b>2,816</b>	<b>4,480</b>	<b>4,480</b>	<b>5,188</b>	<b>5,375</b>	<b>6,600</b>	<b>6,600</b>	<b>6,600</b>	<b>6,600</b>	<b>6,600</b>	<b>6,980</b>				
<b>Pre-Filing ABL</b>																		
ABL opening balance	44,535	44,535	44,535	44,535	44,535	44,535	44,535	44,535	44,535	44,535	44,535	44,535	44,535	44,535				
Less: cash receipts	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
<b>Ending Pre-Filing ABL balance</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>	<b>44,535</b>				
<b>Total financing, ending position</b>	<b>47,334</b>	<b>47,334</b>	<b>47,334</b>	<b>47,351</b>	<b>49,015</b>	<b>49,015</b>	<b>49,723</b>	<b>49,910</b>	<b>51,135</b>	<b>51,135</b>	<b>51,135</b>	<b>51,135</b>	<b>51,135</b>	<b>51,515</b>				

Dated this 24th day of August 2023. This statement of projected cash-flow of the CCAA Applicants is prepared in accordance with the DIP facility term sheet dated August 24, 2023 and should be read in conjunction with the Proposed Monitor's second supplementary pre-filing report.



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 24, 2023  
Notes and Summary of Assumptions**

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

**Note**

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

# **APPENDIX G**

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

<b>Debtor</b>	<b>Lender</b>	<b>Monitor</b>	<b>Filing Date</b>	<b>Province</b>	<b>DIP Facility (\$million)</b>	<b>Interest</b>	<b>Fees</b>
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		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%