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 PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO KRAUS BRANDS INC., KRAUS CANADA LTD., KRAUS CARPET INC., KRAUS PROPERTIES INC., KRAUS USA INC., and STRUDEX INC.

PRE-FILING REPORT OF THE PROPOSED MONITOR SEPTEMBER 10, 2018

A. INTRODUCTION

1. Deloitte Restructuring Inc. ("**Deloitte**" or the "**Proposed Monitor**") understands that Kraus Brands Inc., Kraus Canada Ltd., Kraus Carpet Inc., Kraus Properties Inc., Kraus USA Inc., and Strudex Inc. (collectively, the "**Applicants**") will be bringing an application before the Ontario Superior Court of Justice [Commercial List] (the "**Court**") seeking certain relief under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). The Applicants propose that Deloitte be appointed as Monitor in the CCAA proceedings, and request that the protections under the Initial Order be extended to the partnerships listed in Appendix "A" (the "**Partnerships**", and together with the Applicants, the "**Kraus Group**").

2. This report (the "**Pre-filing Report**") has been prepared by the Proposed Monitor prior to and in contemplation of its appointment as Monitor in the CCAA proceedings to provide

information to the Court for its consideration on the Applicants' initial hearing seeking protection pursuant to the CCAA.

B. PURPOSE

3. The purpose of this Pre-filing Report is to provide information to the Court on:

i. Deloitte's qualifications to act as Monitor;

ii. Background information with respect to the Kraus Group;

iii. Overview of security granted by the Kraus Group;

iv. Sale processes for the Kraus Group Divisions;

v. The Proposed Transaction and the impact on stakeholders of the Kraus Group, including employees;

vi. The Proposed Monitor's Liquidation analysis;

vii. An overview of the Kraus Group's 13-week cash flow projection;

viii. Priority payments;

ix. Proposed Court-ordered charges;

x. Other provisions of the Initial Order;

xi. Recognition of CCAA in the U.S. Court;

xii. Deloitte's proposed monitoring procedures; and,

xiii. Proposed Monitor's recommendations.

C. TERMS OF REFERENCE AND DISCLAIMER

4. In preparing this Pre-Filing Report and making the comments herein, the Proposed Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Kraus Group, and discussions with management of the Applicants ("**Management**") (collectively, the "**Information**").

5. The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed 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 Generally Accepted Assurance Standards ("**Canadian GAAS**") pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under Canadian GAAS in respect of the Information.

6. Some of the information referred to in this Pre-filing Report consists of financial projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

7. Future oriented financial information referred to in this Pre-filing Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not

ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

8. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. All terms not defined herein shall have the meanings ascribed to them from the Emmott Affidavit (as defined below).

D. DELOITTE'S QUALIFICATIONS TO ACT AS MONITOR

9. Deloitte is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada). The senior Deloitte professional personnel associated with this matter have acquired knowledge of the Applicants and its business through discussions with Management and advisors to the Kraus Group. In March 2018, an affiliate of Deloitte, Deloitte Corporate Finance Inc. ("**DCF**"), was engaged by Red Ash (defined below) to assist the Company with the preparation for marketing and divestiture of the TPS Business (defined below) and in June 2018, was similarly engaged for the sale of the Broadloom Business (defined below). DCF has been remunerated on discounted hourly billing basis for these marketing and divestiture services and billings are current. DCF was also entitled to an additional incentive fee if the aggregate consideration exceeded a certain threshold. This threshold has not been met and no incentive fee will be earned by DCF. Notwithstanding that DCF is an affiliate of the Proposed Monitor, the Proposed Monitor believes that this engagement was robust and thorough and can be relied upon by the parties

in making the recommendations herein. Further, DCF's engagement has no impact on the Proposed Monitor's ability to act impartially and be retained as the CCAA Monitor.

10. Following these processes, in August 2018, Deloitte was asked to assist the Kraus Group to prepare for a potential CCAA filing. In preparation for its potential appointment as Monitor, Deloitte has spent time with Management understanding the operations, debt structure and the going concern sales processes as more fully described in this Report for the assistance of the Court. This mandate also included consultation with independent legal advisors. Deloitte is, therefore, in a position to immediately assist the Applicants in their CCAA proceedings.

11. Deloitte is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.

12. Deloitte has consented to act as Monitor, should the Court grant the Applicants' request for the Initial Order.

13. The Proposed Monitor has retained Miller Thompson LLP ("**Monitor's Counsel**") to act as its independent Canadian counsel. The Monitor's Counsel advised Deloitte that it previously provided legal services, primarily relating to trademark and other intellectual property issues, to the Kraus Group and certain predecessors, and that appropriate firewalls and safeguards have thus been established within the firm. The Proposed Monitor believes that this prior work does not impair the Monitor's Counsel's ability to act impartially for the Proposed Monitor. The Proposed Monitor is in the process of retaining Sheppard, Mullin, Richter & Hampton LLP as its independent U.S. counsel ("**U.S. Counsel**"). U.S.

Counsel has advised the Proposed Monitor that they have represented Wells Fargo in matters unrelated to this case or Kraus and have established ethical walls between the professionals involved in other Wells Fargo matters and those working with the Proposed Monitor. U.S. Counsel has advised that if any challenge to the validity or enforceability of the Well's Fargo security occurs then they would arrange for local litigation counsel to do any such work. The Proposed Monitor believes that, subject to these safeguards being in place, that U.S. Counsel is able to act impartially for the Proposed Monitor.

E. BACKGROUND INFORMATION WITH RESPECT TO THE KRAUS GROUP

14. This Pre-filing Report should be read in conjunction with the Affidavit of Chris Emmott, sworn September 10, 2018 ("**Emmott Affidavit**") with respect to the Kraus Group and its application for relief pursuant to the CCAA, upon which the Proposed Monitor relies.

Background

15. The Kraus Group was established in 1959 as a carpet manufacturer and is now a vertically-integrated manufacturer of premium carpet for the commercial and residential market. It is also a distributor in North America of flooring products produced by other manufactures.

16. The Kraus Group is made up of 12 separate entities described in detail in the Emmott Affidavit in Paragraph 6.

17. The Kraus Group operates two large carpet-manufacturing and logistics facilities:

i. The 850,000 square foot flagship mill, which is owned and operated by Kraus Brands LP and by its general partner Kraus Brands Inc. located in Waterloo, Ontario ("**Waterloo Premises**"); and,

ii. The 162,000 square foot facility in Dalton, Georgia, that provides warehousing and logistics services for the Kraus Group and is owned and operated by Kraus US ("**Dalton Premises**").

18. The Kraus Group has two divisions: (i) the manufacturing of residential and commercial broadloom carpet ("**Broadloom Business**"); and (ii) the distribution and sale of flooring products to commercial and residential customers, including carpet tiles, vinyl tiles, laminate, and hardwood ("**TPS Business**").

19. As of August 30, 2018, the Kraus Group had approximately 540 employees in Canada and the United States split between unionized and non-unionized, as detailed in the Emmott Affidavit.

20. The Kraus Group markets its carpet and flooring products to both the commercial and residential markets. The Broadloom Business accounts for approximately 46% of the Kraus Group's revenues; the TPS Business accounts for the remaining 54%. The Broadloom Business's US sales are approximately 67% of total sales, with Canadian sales comprising the remaining 33%. The TPS Business's American sales account for approximately 53% of total sales, and Canadian sales are the remaining 47%.

Causes of Insolvency

21. As reported in the Emmott Affidavit, the Kraus Group is insolvent and unable to meet its liabilities as they become due. The Kraus Group requires the protection of an initial order under the CCAA to enable it to effect the going concern sale of the TPS Business, the potential sale of some of the assets of the Broadloom Business, and to maximise recoveries from the orderly wind down of the remainder of the Broadloom Business.

22. The Kraus Group has suffered declining financial results over the last five years with significant declines in revenue and EBITDA in 2017. Consolidated revenue, EBITDA and net loss for the Kraus Group for the years ended December 2014 to December 2017 and for the seven-month period ending July 31, 2018 are as follows (in $ millions):

Year	**2014**	**2015**	**2016**	**2017**	**2018 – 7 Months**
Revenue	$207.0	$229.0	$239.0	$218.0	$125.2
EBITDA (MM)	($1.2)	$4.2	$6.1	$3.2	($0.1)
Net Profit (MM)	($10.0)	($11.7)	($3.8)	($6.1)	($7.6)

23. The Proposed Monitor understands that there are several reasons for the financial decline.

24. First, the Kraus Group's performance was negatively impacted by the downturn in the carpet manufacturing industry over the past several years due to a shift in consumer preferences to hard surface flooring, the availability of cheaper broadloom carpeting from China and a general decline in carpet sales and profitability over the last 20 years.

25. Second, the Kraus Group faces significant fixed costs, including those associated with maintaining and operating the Waterloo Premises and a North American-wide distribution network, which contributed to the decline in its financial performance. These fixed costs could not be reduced or downsized to correspond with the overall decline in the market.

26. The Proposed Monitor understands that although the Kraus Group has taken steps since 2008 to cut costs in its manufacturing process, the Kraus Group has not been able to improve its financial performance or minimize its mounting debt obligations.

27. As described in the Emmott Affidavit, as at July 31, 2018, the Kraus Group's unaudited financial position shows a book value shareholders' deficit of $46,764,490 against liabilities of $180,445,952. The Proposed Monitor understands that this deficit has accumulated due to the previously mentioned financial decline.

28. As described in the Emmott Affidavit, in August 2018, Wells Fargo (defined below) demanded payment under the Wells Credit Agreement (defined below) due to the Kraus Group being in default of the agreement. By virtue of this default, the Kraus Group is also in default of the Red Ash Credit Facilities (defined below).

F. OVERVIEW OF SECURED CREDITORS

Senior Secured Debt

29. As described in the Emmott Affidavit, Wells Fargo Capital Finance Corporation Canada ("**Wells Fargo**") is the senior secured lender of the Kraus Group. Pursuant to a credit agreement dated August 6, 2013 ("**Wells Credit Agreement**"), Wells Fargo provided credit facilities to Kraus Canada LP, Strudex LP, Kraus LP and Kraus US (collectively, the "**Kraus Operating Entities**"). This credit agreement has been amended on several occasions, most recently pursuant to a fourth amendment to credit agreement dated August 6, 2018.

30. The Proposed Monitor understands that the Kraus Operating Entities' debt obligations and liabilities to Wells Fargo are fully secured by a series of security agreements over all present and after-acquired real and personal property including, amongst other things:

    i. $50 million first-ranking charge on the Waterloo Premises;

    ii. security over the Dalton Premises pursuant to a deed to secure debt and assignment of leases dated August 14, 2013;

    iii. personal property security over all of the assets of the Kraus Group in Canada; and,

    iv. the US and guarantees from each of the Applicants, each dated August 6, 2013.

31. As of July 31, 2018, the total indebtedness to Wells Fargo was approximately $48,229,292.

32. As described in the Emmott Affidavit, Wells Fargo have demanded payment under the Wells Credit Agreement. On September 10, 2018, the Kraus Group and Wells Fargo entered into a forbearance agreement, which contemplates a CCAA filing and weekly reporting on the cash flows with the assistance of the Monitor. This agreement has been described in detail in the Emmott Affidavit.

Junior Secured Debt

33. As described in detail in the Emmott Affidavit, Red Ash Capital Partners II Limited Partnerships ("**Red Ash**") is the junior secured creditor of the Kraus Group. Red Ash's general partner is Pinnacle Capital Resources Limited. Hilco UK Limited ("**Hilco**") is the sole shareholder of Pinnacle Capital Resources Limited.

34. Pursuant to the Order of the Honourable Justice Morawetz dated June 11, 2012 and upon the application of Hilco, PricewaterhouseCoopers Inc. was appointed as receiver (in such capacity, the "**Receiver**") over all of the assets, undertakings and properties of Kraus Inc., Kraus Canada Inc., Strudex Fibres Limited and 538626 B.C. Ltd. (the "**Receivership Order**"). Based on its review of court reports filed by the Receiver in the receivership proceeding, the Proposed Monitor understands that Hilco acquired the predecessors of the Kraus Group in May 2012. As part of this acquisition, Red Ash took an assignment of the credit facilities and security held by the secured creditors of the predecessors of the Kraus Group. The insolvent circumstances of the Kraus group of companies at that time resulted in the Receivership Order. The receivership proceeding facilitated said acquisition and

ultimately resulted in a court-approved sale in favour of the purchaser. A copy of the Receivership Order is attached as Appendix "B".

35. From May 2012 to July 2014, two separate promissory notes were issued and amended by the predecessors of the Kraus Group and companies within the Kraus Group to Red Ash ("**Red Ash Credit Facilities**").

36. The Proposed Receiver understands that these promissory notes are fully secured by a series of security agreements over all present and after-acquired real and personal property including, amongst other things: i) $177.5 million second ranking charge over the Waterloo Premises; ii) personal property security over all of the assets of the Kraus Group in Canada and the United States; iii) security and assignment of rents over the Dalton Premises; and, iv) guarantees from the Kraus Group in favour of Red Ash.

37. As of July 31, 2018, the total indebtedness to Red Ash was approximately $99,940,956.

38. The Proposed Monitor has engaged Monitor's Counsel to provide an independent opinion on the validity and enforceability of the Wells Fargo and Red Ash security over the Kraus Group assets. As noted, U.S. Counsel will be retained to assist with the U.S. aspects of this opinion. This analysis is ongoing as of September 10, 2018.

Unsecured Debt

39. As described in the Emmott Affidavit and to the Proposed Monitor's knowledge, the Applicants have unpaid trade and other unsecured debt accrued in the normal course of

business. As of July 31, 2018, accounts payable balances totalled approximately $32.3 million.

G. SALE PROCESSES OF THE KRAUS GROUP DIVISIONS

*Sale of the TPS Business ("**TPS SISP**")*

40. On March 20, 2018, Hilco engaged DCF to assist with the sale of the TPS Business as a standalone business that could be carved out from the Kraus Group. The affidavit of Susan Mingie, CPA, Partner, DCF, sworn on September 10, 2018, attached as Appendix "C" to this Pre-filing Report, contains details regarding the extensive TPS SISP sale process. DCF, with the assistance of the Kraus Group's management, identified a comprehensive list of potential strategic buyers and financial buyers and marketed the TPS Business.

41. Following the TPS SISP, on September 10, 2018, QEP Co. Inc. (the "**Purchaser**") and the Kraus Group executed the Purchase Agreement (the "**TPS Purchase Agreement**"), which is described further below. The Proposed Monitor understands that the Purchaser is at arms-length to the Applicants.

42. It is the opinion of the Proposed Monitor that it is not economic, necessary or feasible to run a further sale process in respect of the TPS Business for the following reasons:

    i. As detailed in the Mingie Affidavit, DCF ran a broad, comprehensive sales process that fully canvassed the market for potential purchasers;

ii. Interested parties were provided with detailed information, access to an extensive data room, and access to key personnel of the TPS Business in order to further their purchase interest and formulate their best offer;

iii. The Proposed Monitor understands that the secured lenders, Wells Fargo and Red Ash, have been consulted and are in favour of the proposed sale, although the Proposed Monitor was not a party or privy to these discussions;

iv. As detailed in the Mingie Affidavit, the accepted purchase price represents the best financial offer from the sale process;

v. The purchase price is based upon the Purchaser buying all of the assets of the TPS Business. It is the Proposed Monitor's opinion that the purchase price offered by the TPS Purchase Agreement is materiality greater than the liquidation value of the TPS Business assets. The Proposed Monitor's liquidation analysis is described in Section J of this Pre-Filing Report; and

vi. The Kraus Group is insolvent. Hilco has advised the Proposed Monitor that Red Ash does not intend to support or provide funding to the Applicants to fund a further sale process.

*Sale of the Broadloom Business ("**Broadloom SISP**")*

43. In June 2018, Hilco engaged DCF to assist it with the marketing and sale of the Broadloom Business. The Mingie Affidavit provides details regarding the extensive Broadloom SISP sale process.

44. Notwithstanding the breadth of the Broadloom SISP, no going concern purchaser was secured for the Broadloom Business. A purchaser for a significant amount of select Broadloom Business inventory and tufting equipment was found and, as of September 10, 2018, negotiations are ongoing as discussed below.

45. The Proposed Monitor believes that it is not economic, necessary or feasible to run a further sale process in respect of the Broadloom Business for the following reasons:

   i. As detailed in the Mingie Affidavit, DCF ran a broad and comprehensive sales process that fully canvassed the market for potential purchasers;

   ii. While a going concern purchaser was not secured, DCF does not believe that a further marketing period for the Broadloom Business will achieve a better result; and

   iii. The Kraus Group is insolvent. Hilco has advised the Proposed Monitor that Red Ash does not intend to support or provide funding to the Applicants to fund a further sale process for the Broadloom Business.

46. Due to its dire financial circumstance, and the lack of a going concern transaction, the Broadloom Business ceased operations on September 8, 2018.

H. PROPOSED TRANSACTION

TPS Purchase Agreement

47. As described in the Emmott Affidavit, the Purchaser has agreed to purchase substantially all of the assets related to the TPS Business and assume certain liabilities of the Kraus Group (including selected leases and TPS Business trade accounts payable). The TPS Purchase Agreement contemplates that the Purchaser will continue to operate the TPS Business as a going concern, which will result in the preservation of jobs and the assignment of certain leases and contracts currently held in the name of the Kraus Group entities. The Purchaser will also assume, as at July 31, 2018, approximately $16.9 million of pre-filing trade liabilities, which would otherwise go unpaid in a liquidation scenario. These pre-filing trade liabilities will be paid in the normal course of operations during the CCAA in order to operate the TPS Business as a going concern. The TPS Purchase Agreement is structured such that consideration is based on the net working capital position of the TPS Business as of the closing date. Accordingly, the settlement of the specific pre-filing TPS Business trade liabilities will not affect the overall consideration from the transaction. Further, the settlement of these pre-filing TPS Business trade liabilities as they come due will greatly facilitate continuing the TPS Business in the ordinary course until closing.

48. The full details of the TPS Purchase Agreement have been discussed in the Emmott Affidavit. The TPS Purchase Agreement is, among other things, conditional upon approval by both the Canadian and United States Courts.

49. After considering the sale process undertaken by the Kraus Group with the assistance of DCF, the Proposed Monitor believes that there are no reasonable or likely alternatives that would offer a better return to the creditors of the Kraus Group.

50. It is the Proposed Monitor's opinion that the TPS Purchase Agreement:

i. Offers value that is materially better than in a liquidation scenario of the TPS Business;

ii. Provides for the continued employment, benefit plans and pension arrangements for 71 employees in Canada and 88 employees in the US;

iii. Provides for continued supplier arrangements for the TPS Business and the assumption of approximately $16.9 million of accounts payable;

iv. Provides for a significant cash inflow on or about October 1, 2018 that can be used to immediately reduce the indebtedness owed to Wells Fargo under the Wells Credit Agreement from this *en bloc* going concern sale; and

v. Does not require any further sale process, which would incur increased professional fees, further delay, and uncertainty of realization.

*TPS Business Transition Services Agreement ("**TPS TSA**")*

51. To facilitate an effective and efficient transition of the TPS Business to the Purchaser, the Purchaser and the Kraus Group are negotiating an agreement for the provision of certain transition services.

52. The TPS Purchase Agreement is conditional upon the parties entering into a satisfactory form of TPS TSA, a description of which is set out in the Emmott Affidavit. The Proposed Monitor is advised by the Kraus Group that it intends to seek approval of the TPS TSA concurrently with approval of the TPS Purchase Agreement.

Broadloom Purchase Agreement

53. The potential Broadloom Business asset sale ("**Broadloom Purchase Agreement**") involves the sale of the some Broadloom inventory and four tufting machines.

54. As of September 10, 2018, transaction terms and relevant legal and operational documents required for closing are still in progress and expected to be finalized on or before the TPS transaction closing date. The Proposed Monitor understands that the Kraus Group will be seeking Court approval of the Broadloom Purchase Agreement separately from the application for approval of the TPS Purchase Agreement.

I. IMPACT OF PROPOSED TRANSACTION ON THE KRAUS GROUP'S EMPLOYEES

55. The sale of the TPS Business will lead to the continuation of 159 jobs, including 71 jobs in Canada as part of the Purchaser's acquisition of the TPS Business.

56. The Proposed Monitor understands from the Kraus Group that the remainder of employees not provided for under the sale of the TPS Business or the TPS TSA will be terminated as of the date of the CCAA filing.

57. The Proposed Monitor understands from the Kraus Group that wages for the period to September 7, 2018, have been settled or will be settled with the next payroll cycle. All pension amounts owing as of September 10, 2018 will be paid in the normal course.

J. LIQUIDATION ANALYSIS

58. In order to assess the reasonableness of the value offered by the TPS Purchase Agreement, the Proposed Monitor has prepared an estimate of the proceeds available to creditors if the assets of the TPS Business and Broadloom Business were liquidated.

59. The liquidation analysis for the Kraus Group is based upon two separate scenarios:

i. A full liquidation of the entire Kraus Group under a forced liquidation scenario; and

ii. A sale of the TPS Business to the Purchaser for the agreed upon purchase price, and the forced liquidation of the remaining Broadloom Business.

60. Attached to this Pre-Filing Report, as Appendix "D", is the Proposed Monitor's Liquidation Analysis. From this analysis, it is the Proposed Monitor's opinion that the

value offered by the TPS Purchase Agreement is materially better than the liquidation value of the TPS Business and Broadloom Business.

K. CASH FLOW FORECAST AND REQUIREMENTS FOR FUNDING

61. The Applicants have prepared the Cash Flow Statement for the period from September 10, 2018 to December 7, 2018 (the "**Cash Flow Period**") for the purposes of projecting the estimated results of the Applicants' operations and other activities during the Cash Flow Period. A copy of the Cash Flow Statement is attached as Appendix "E" hereto, and summarized below:

Kraus Group Consolidated Cash Flow Forecast Amounts in CAD ('000's) Weekly Forecast (ending on Friday)	Total
Cash Flow from Operations	
Receipts	30,104
Disbursements:	
Inventory Disbursements	(9,203)
Employee Related Expenses	(3,814)
Overhead	(1,054)
Net Operating Cash Flow from Operations	**16,033**
Restructuring Costs	(1,278)
Interest & Forbearance Fees	(304)
Net Cash Flow before the TPS Business Sale	**14,451**

62. The Cash Flow Statement is presented on a weekly basis during the Cash Flow Period and represents the best estimate of Management of the projected cash flow during the Cash Flow Period. The Cash Flow Statement has been prepared by Management, using the

probable and hypothetical assumptions set out in the notes to the Cash Flow Statement (the "**Assumptions**").

63. The Proposed Monitor has reviewed the Cash Flow Statement to the standard required of a Court-appointed monitor by section 23(1)(b) of the CCAA. Section 23(1)(b) requires a monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the monitor's findings. The Canadian Association of Insolvency and Restructuring Professionals' Standards of Professional Practice include a standard for monitors fulfilling their statutory responsibilities under the CCAA in respect of a monitor's report on the Cash Flow Statement.

64. In accordance with the standard, the Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to the Cash Flow Statement and Assumptions. Since the Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor also reviewed the support provided by Management for the Assumptions and the preparation and presentation of the Cash Flow Statement.

65. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe, in all material aspects, that:

i. The Assumptions are not consistent with the purpose of the Cash Flow Statement;

ii. As at the date of this Pre-Filing 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 Statement, given the Assumptions; or

iii. The Cash Flow Statement does not reflect the Assumptions.

66. The Cash Flow Statement has been prepared solely for the purposes described above, and readers of this Pre-Filing Report are cautioned that it may not be appropriate for other purposes.

67. As set out in the Cash Flow Statement, the Applicants have sufficient funds to satisfy their projected uses of cash during the Cash Flow Period, subject to the continued access to the Wells Credit Agreement and the closing of the TPS Purchase Agreement. The positive cash flow result above is the result of the continuation of the TPS Business in the ordinary course until October 1 and the orderly collection of accounts receivable and sale of inventory from the Broadloom Business. The Broadloom Business ceased operations on September 7, 2018.

L. PRIORITY PAYMENTS

68. As described in the Emmott Affidavit and to the Proposed Monitor's knowledge, the Applicants are current in their payroll and related remittances and are planning to settle any accrued liabilities for unpaid wages in the normal payroll cycle. The Applicants are also current on CRA source deductions from employees' wages and on remittances to the pension plans. The Proposed Monitor understands that the Applicants are current on its

HST remittances to August 27, 2018. As HST is remitted in arrears, it is intended that certain HST amounts collected before the date of this Application will be remitted in the ordinary course post-filing.

M. PROPOSED COURT ORDERED CHARGES

69. The Initial Order provides for an Administration Charge (as defined below) and a Directors' Charge (as defined below) (collectively, the "**Charges**").

70. If granted, the Charges will be first- ranking charges on the Kraus Group's property in priority to the charges of Wells Fargo and Red Ash. The Proposed Monitor is advised by the Kraus Group that both Wells Fargo and Red Ash have consented to such priorities.

Administration Charge

71. The Initial Order provides for a charge in favour of counsel to the Applicants, the Monitor and Monitor's counsel (the "**Administration Charge**"), ranking in priority to all security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise. The Administration Charge shall not exceed an aggregate amount of $1.0 million, as security for professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the issuance of the Initial Order in respect of these CCAA proceedings.

72. The Proposed Monitor is of the view that the proposed Administration Charge is reasonable and appropriate in the circumstances, having regard to, among other things, the complexity of these CCAA proceedings and the potential professional work involved at peak times.

Directors' and Officers' Charge

73. The Initial Order provides for a charge in the amount of $1.0 million (the "**Directors' Charge**") in favour of the Applicants' directors and officers as security for any obligations or liabilities that may arise after the commencement of the CCAA proceedings, except to the extent that such obligation or liability is incurred as a result of such director's or officer's gross negligence or wilful misconduct and to the extent that such directors do not have coverage under any directors' and officers' insurance policy. The Directors' Charge will rank in priority to all security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise, other than the Administration Charge.

74. The Proposed Monitor understands that the Kraus Group's directors and officers have indicated that, due to the risk of personal exposure associated with the Kraus Group's aforementioned liabilities, they will not continue their service with the Applicants during the post-filing period unless the initial order establishes an indemnity in their favour and grants a charge on the Property in the amount of $1.0 million on customary terms.

75. The table below is derived from the Cash Flow Statement and discussions with Management and estimates the maximum liability associated with potential directors' and officers' obligations in the ordinary course of business:

Potential Directors & Officers Liabilities	**Payment Frequency**	**Max Liability**	**Amount ('000s)**
Payroll	Bi-weekly	2 weeks	1,030
Payroll Remittances	Bi-weekly	2 weeks	304
Commissions	Weekly	1 week	150
Benefits	Bi-weekly	2 weeks	314
HST	Monthly	1 Month	1,020
			2,818
Proposed Director's Charge			**1,000**

76. The Proposed Monitor understands that the Applicants directors' and officers' liability insurance was renewed until November 30, 2018 with a combined maximum aggregate limit of liability of $15,000,000 for certain claims and liabilities that may arise. The Proposed Monitor reviewed the policy and notes that the policy contains exclusions and exceptions to the coverage related to employee-related liabilities. Accordingly, a Directors' Charge in the amount of $1.0 million is reasonable in the circumstances.

77. The Proposed Monitor is of the view that the Directors' Charge is reasonable and appropriate under the circumstances.

78. Following the closing of the TPS Transaction, the maximum liability of Directors and Officers will be significantly reduced from the estimate above.

Summary of the Proposed Ranking of Charges

79. The proposed priorities of the charges to be created under the Initial Order are as follows:

i. Administration Charge (to the maximum amount of $1.0 million); and,

ii. Directors' Charge (to the maximum amount of $1.0 million).

N. OTHER PROVISIONS OF THE INITIAL ORDER

i. Sealing Order

80. As described in the Emmott Affidavit, the Applicants are seeking a sealing order in respect of the TPS Purchase Agreement, which discloses the purchase price for the TPS Business.

81. The Applicants are also seeking a sealing order in respect of Exhibits C and E of the Mingie Affidavit attached to this Pre-Filing Report as Appendix "C" (being the strategic and financial purchaser lists for the TPS SISP and the Broadloom SISP), and Confidential Appendix "D" of this Pre-Filing Report (being the Proposed Monitor's Liquidation Value estimate).

82. It is imperative that the TPS Business sale process remains competitive in the event that the TPS Purchase Agreement is not completed and the TPS Transaction does not close. The redactions contained in the Confidential Appendices are limited to what is necessary to preserve the competitiveness of a sale process, and the duration is limited to the filing of the Monitor's certificate upon closing of the TPS Transaction.

ii. The Comeback Hearing

83. In a separate motion returnable September 18, 2018, the Applicants will seek Court approval of the TPS Purchase Agreement, the Transition Services Agreement, the vesting of the Purchased Assets (as that term is defined in the TPS Purchase Agreement) in the Purchaser.

84. The Applicants have advised that they intend to seek similar relief from the United States Bankruptcy Court.

85. As noted above, the Proposed Monitor has engaged independent legal counsel in Canada and the U.S. to provide opinions on the validity and enforceability of the Wells Fargo and Red Ash secured charges and will be reporting to the Court separately on the results. The Applicants are not seeking authorization from the Court to distribute proceeds to secured creditors at this time.

iii. Notice to Creditors

86. The Proposed Monitor will fulfill the statutory requirement to send a notice of the CCAA proceedings to every known creditor who has a claim against the Applicants of more than $1,000. It is the Proposed Monitor's intention to publish notice of the CCAA filing in the national edition of the *Globe and Mail*. All materials will be immediately published on the Proposed Monitor's dedicated website at www.insolvencies.deloitte.ca/en-ca/Kraus.

O. RECOGNITION OF CCAA IN THE US COURT

87. The Applicants intend on seeking recognition of the CCAA proceedings under Chapter 15 of the United States Bankruptcy Code in the United States Bankruptcy Court in the District of Delaware. As disclosed in the Emmott Affidavit, Kraus Carpet Inc. will seek to be authorized to act as the foreign representative of the Kraus Group and to apply for such foreign recognition of the within proceedings in the United States. Such recognition is

required in order to have the TPS Purchase Agreement approved by the US Court, which is a condition of closing the TPS Transaction.

P. PROPOSED MONITORING PROCEDURES

88. Since being retained, Deloitte's activities to date have included:

i. Meetings with the Kraus Group's senior management, legal and financial advisors;

ii. Review of the progress and results of the sales processes;

iii. Engaging Miller Thompson LLP, as legal counsel, who assisted with the above activities;

iv. Engaging Sheppard, Mullin, Richter & Hampton LLP as independent U.S. counsel; and

v. Preparing this Pre-filing Report.

89. As part of its monitoring procedures, the Proposed Monitor will monitor and report on the following to ensure compliance with the Initial Order, if granted by the Court:

i. Receipts and disbursements of the Applicants in compliance with the 13-Week Cash Flow Statement (described below) and subsequent forecast periods;

ii. Interactions between the Company and the employee unions; and

iii. Updates related to the proposed sale processes;

90. The Proposed Monitor believes that appropriate monitoring of the receipts and disbursements of the Applicants and the sale and other realization processes will provide the necessary oversight of the Applicants' activities during the CCAA proceedings. The Applicants and the Proposed Monitor have discussed these procedures with which the Applicants concur.

Q. RECOMMENDATIONS

91. Based on the circumstances and analysis set out above, the Proposed Monitor is supportive of the Applicants' request for relief pursuant to the CCAA and the terms of the proposed Initial Order.

92. Based on the results of the TPS SISP, the Proposed Monitor believes that the TPS Purchase Agreement represents the best recovery for the creditors of the Kraus Group and is superior to the liquidation value of the assets of the TPS Business.

93. Based on the results of the TPS SISP and the Broadloom SISP, the Proposed Monitor does not believe that a further marketing of the assets of the TPS Business or the Broadloom Business will yield a greater recovery to the creditors of the Kraus Group.

All of which is respectfully submitted this 10th day of September, 2018.

Deloitte Restructuring Inc.
Solely in its proposed role as Court-appointed Monitor of the Kraus Group and not in its personal capacity

Per: P. Casey

Paul M. Casey, CPA, CA, FCIRP, LIT
Senior Vice-President

Appendix “A”

Partnerships

Partnerships

Kraus Brands LP

Kraus Canada LP

Kraus Carpet LP

Kraus Properties LP

Strudex LP

Appendix "B"

2012 Receivership Order of Kraus Inc., Kraus Canada Inc., Strudex Fibres Limited and 538626 B.C. Ltd.

Court File No. CV-12-9731-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	MONDAY, THE 11th
	)	
JUSTICE MORAWETZ	)	DAY OF JUNE, 2012

B E T W E E N:

PINNACLE CAPITAL RESOURCES LIMITED in its capacity as general partner of RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP

Applicant

\- and -

KRAUS INC., KRAUS CANADA INC., STRUDEX FIBRES LIMITED, and 538626 B.C. LTD.

Respondents

APPLICATION UNDER SUBSECTION 46(1) and SECTION 243 OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, as amended

RECEIVERSHIP ORDER

THIS APPLICATION made by the Applicant for an Order pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the "**BIA**") appointing PricewaterhouseCoopers Inc. ("**PwC**") as receiver (in such capacity, the "**Receiver**") without security, of all of the assets, undertakings and properties of Kraus Canada Inc., Kraus Inc., Strudex Fibres Limited, and 538626 B.C. Ltd. (collectively, the "**Debtor**") acquired for, or used in relation to the businesses carried on by the Debtor, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Chris Emmott sworn May 25, 2012 (the "**Emmott Affidavit**") and the Exhibits thereto, the supplementary affidavit of Chris Emmott sworn June 7, 2012 and the Exhibits thereto, the First Report dated May 30, 2012 of PwC (the "**First Report**") in its capacity as Interim Receiver (the "**Interim Receiver**") appointed by order dated May 28, 2012 (the "**Interim Receivership Order**") and proposed Receiver, the Second Report dated June 10, 2012 of the Interim Receiver and the proposed Receiver (the "**Second Report**") and on hearing the submissions of counsel for the Applicant, the Interim Receiver, PwC in its capacity as the proposed Receiver, Nylene Canada, Inc., the Financial Services Commission of Ontario, Propex Operating Company, LLC, Tri-tex Co. Inc., and Equistar Chemicals, LP, no one appearing for any other party although duly served as appears from the affidavits of service of Patricia Hoogenband sworn May 25 and June 11, 2012, of John Birch sworn May 28, 2012, and of Rishi Hargovan, sworn June 10, 2012,

AND ON BEING ADVISED that the beneficiaries of the Pension Plans (as defined in the Emmott Affidavit) were sent a copy of the Notice as directed by the Interim Receivership Order, and on reading the consent of PwC to act as the Receiver, and upon bankruptcy orders having been issued earlier this day in respect of the Debtor (other than 538626 B.C. Ltd.) to be effective immediately prior to the Effective Time (defined herein), and whereas defined terms used herein, unless otherwise defined, have the meaning ascribed to them in the Emmott Affidavit,

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application Record is hereby abridged and validated so that the relief claimed in paragraphs 1(b)(i) through 1(b)(vi) of the Notice of Application is properly returnable today and that the time for service of the Notice of Motion and Motion Record of the Interim Receiver as authorized and directed by the Interim Receivership Order is hereby abridged and validated so that such Motion is properly returnable today, and hereby dispenses with further service thereof.

APPOINTMENT

2. THIS COURT ORDERS that, pursuant to section 243(1) of the BIA, PwC is hereby appointed Receiver, without security, of all of the assets, undertakings and properties of the Debtor acquired for, or used in relation to the businesses carried on by the Debtor, including all proceeds thereof (the "**Property**"), with the power and authority to complete the Purchase Transaction in accordance with the APA and a sale approval and vesting order to be issued today (the "**Approval Order**"), if court approval is granted, and convey the Purchased Assets as defined therein without taking possession or control thereof.

3. THIS COURT ORDERS that the appointment of the Receiver shall become effective on the earlier of (a) immediately prior to the closing of the Purchase Transaction or (b) in the event that the APA is terminated in accordance with its terms, immediately following such termination (the "**Effective Time**"). When the Receiver's appointment becomes effective, the Interim Receiver shall be discharged, provided that the Interim Receiver shall continue to have the benefit of the provisions of the Interim Receivership Order including all approvals, protections and stays of proceedings in favour of PwC in its capacity as Interim Receiver. The obligations of the Interim Receiver pursuant to Rule 79 of the Bankruptcy and Insolvency General Rules are hereby dispensed with.

RECEIVER'S POWERS

4. THIS COURT ORDERS that the Receiver is hereby empowered and authorized, but not obligated, to act at once in respect of the Property (subject to the conveyance of the Purchased Assets in accordance with the Approval Order) and, without in any way limiting the generality of the foregoing, the Receiver is hereby expressly empowered and authorized to do any of the following where the Receiver considers it necessary or desirable:

(a) to take possession of and exercise control over the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;

(b) to receive, preserve, and protect the Property, or any part or parts thereof, including, but not limited to, the changing of locks and security codes, the relocating of Property to safeguard it, the engaging of independent security personnel, the taking of physical inventories and the placement of such insurance coverage as may be necessary or desirable;

(c) to enter into any agreements or cease to perform any contracts of the Debtor;

(d) to engage consultants, appraisers, agents, experts, auditors, accountants, managers, counsel and such other persons from time to time and on whatever basis, including on a temporary basis, to assist with the exercise of the Receiver's powers and duties, including without limitation those conferred by this Order;

(e) to purchase or lease such machinery, equipment, inventories, supplies, premises or other assets or any part or parts thereof;

(f) to receive and collect all monies and accounts now owed or hereafter owing to the Debtor and to exercise all remedies of the Debtor in collecting such monies, including, without limitation, to enforce any security held by the Debtor;

(g) to settle, extend or compromise any indebtedness owing to the Debtor;

(h) to execute, assign, issue and endorse documents of whatever nature in respect of any of the Property, whether in the Receiver's name or in the name and on behalf of the Debtor, for any purpose pursuant to this Order;

(i) to undertake environmental or workers' health and safety assessments of the Property and operations of the Debtor;

(j) to initiate, prosecute and continue the prosecution of any and all proceedings and to defend all proceedings now pending or hereafter instituted with respect to the Debtor, the Property or the Receiver, and to settle or compromise any such proceedings. The authority hereby conveyed shall extend to such appeals or applications for judicial review in respect of any order or judgment pronounced in any such proceeding;

(k) to apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property, including, without limiting the generality of the foregoing, to apply for such orders as are necessary to obtain approval of and carry out the terms of the APA and the Purchase Transaction contemplated thereby;

(l) to report to, meet with and discuss with such affected Persons (as defined below) as the Receiver deems appropriate on all matters relating to the Property and the receivership, and to share information, subject to such terms as to confidentiality as the Receiver deems advisable;

(m) to register a copy of this Order and any other Orders in respect of the Property against title to any of the Property;

(n) to apply for any permits, licences, approvals or permissions as may be required by any governmental authority and any renewals thereof for and on behalf of and, if thought desirable by the Receiver, in the name of the Debtor;

(o) to enter into agreements with any trustee in bankruptcy appointed in respect of the Debtor, including, without limiting the generality of the foregoing, the ability to enter into occupation agreements for any property owned or leased by the Debtor;

(p) to exercise any shareholder, partnership, joint venture or other rights which the Debtor may have;

(q) to take such steps as are necessary to complete the Purchase Transaction;

(r) in the event the APA is terminated in accordance with its terms, to immediately liquidate the Property, and to retain a liquidator for that purpose on such terms as are acceptable to the Receiver and the Applicant, or as approved by the Court;

(s) to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations; and

(t) and in each case where the Receiver takes any such actions or steps, it shall be exclusively authorized and empowered to do so, to the exclusion of all other Persons (as defined below), including the Debtor, and without interference from any other Person.

DUTY TO PROVIDE ACCESS AND CO-OPERATION TO THE RECEIVER

5. THIS COURT ORDERS that (i) the Debtor, (ii) all of its current and former directors, officers, employees, agents, accountants, legal counsel and shareholders, and all other persons acting on its instructions or behalf, and (iii) all other individuals, firms, corporations, governmental bodies or agencies, or other entities having notice of this Order (all of the foregoing, collectively, being "**Persons**" and each being a "**Person**") shall forthwith advise the Receiver of the existence of any Property in such Person's possession or control, shall grant immediate and continued access to the Property to the Receiver, and shall deliver all such Property to the Receiver upon the Receiver's request.

6. THIS COURT ORDERS that all Persons shall forthwith advise the Receiver of the existence of any books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of the Debtor, and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the "**Records**") in that Person's possession or control, and shall provide to the Receiver or permit the Receiver to make, retain and take away copies thereof and grant to the Receiver unfettered access to and use of accounting, computer, software and physical facilities relating thereto, provided however that nothing in this

paragraph 6 or in paragraph 7 of this Order shall require the delivery of Records, or the granting of access to Records, which may not be disclosed or provided to the Receiver due to the privilege attaching to solicitor-client communication or due to statutory provisions prohibiting such disclosure.

7. THIS COURT ORDERS that if any Records are stored or otherwise contained on a computer or other electronic system of information storage, whether by independent service provider or otherwise, all Persons in possession or control of such Records shall forthwith give unfettered access to the Receiver for the purpose of allowing the Receiver to recover and fully copy all of the information contained therein whether by way of printing the information onto paper or making copies of computer disks or such other manner of retrieving and copying the information as the Receiver in its discretion deems expedient, and shall not alter, erase or destroy any Records without the prior written consent of the Receiver. Further, for the purposes of this paragraph, all Persons shall provide the Receiver with all such assistance in gaining immediate access to the information in the Records as the Receiver may in its discretion require including providing the Receiver with instructions on the use of any computer or other system and providing the Receiver with any and all access codes, account names and account numbers that may be required to gain access to the information.

NO PROCEEDINGS AGAINST THE RECEIVER

8. THIS COURT ORDERS that no proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**"), shall be commenced or continued against the Receiver except with the written consent of the Receiver or with leave of this Court.

NO PROCEEDINGS AGAINST THE DEBTOR OR THE PROPERTY

9. THIS COURT ORDERS that no Proceeding against or in respect of the Debtor or the Property shall be commenced or continued except with the written consent of the Receiver or with leave of this Court and any and all Proceedings currently under way against or in respect of the Debtor or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

10. THIS COURT ORDERS that all rights and remedies against the Debtor, the Receiver, or affecting the Property, are hereby stayed and suspended except with the written consent of the Receiver or leave of this Court, provided however that this stay and suspension does not apply in respect of any "eligible financial contract" as defined in the BIA, and further provided that nothing in this paragraph shall (i) empower the Receiver or the Debtor to carry on any business which the Debtor is not lawfully entitled to carry on, (ii) exempt the Receiver or the Debtor from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH THE RECEIVER

11. THIS COURT ORDERS that 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 Debtor, without written consent of the Receiver or leave of this Court.

CONTINUATION OF SERVICES

12. THIS COURT ORDERS that all Persons having oral or written agreements with the Debtor 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 Debtor are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Receiver, and that the Receiver shall be entitled to the continued use of the Debtor's current 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 Receiver in accordance with normal payment practices of the Debtor or

such other practices as may be agreed upon by the supplier or service provider and the Receiver, or as may be ordered by this Court.

RECEIVER TO HOLD FUNDS

13. THIS COURT ORDERS that all funds, monies, cheques, instruments, and other forms of payments received or collected by the Receiver from and after the making of this Order from any source whatsoever, including without limitation the sale of all or any of the Property and the collection of any accounts receivable in whole or in part, whether in existence on the date of this Order or hereafter coming into existence, shall be deposited into one or more new accounts to be opened by the Receiver (the "**Post Receivership Accounts**") and the monies standing to the credit of such Post Receivership Accounts from time to time, net of any disbursements provided for herein, shall be held by the Receiver to be paid in accordance with the terms of this Order or any further Order of this Court.

EMPLOYEES

14. THIS COURT ORDERS that all employees of the Debtor not previously terminated have been terminated by the granting of the bankruptcy orders in respect of the Debtor (other than 538686 B.C. Ltd.). The Receiver shall not be liable for any employee-related liabilities, including any successor employer liabilities as provided for in section 14.06(1.2) of the BIA, other than such amounts as the Receiver may specifically agree in writing to pay, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner Protection Program Act*.

PIPEDA

15. THIS COURT ORDERS that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Receiver shall disclose personal information of identifiable individuals to the Purchaser and/or prospective purchasers or bidders for the Property and to their advisors (collectively, a "**Recipient**"), but only to the extent desirable or required to negotiate and attempt to complete one or more sales of the Property (each, a "**Sale**"). Each Recipient to whom such personal information is disclosed shall maintain and protect the privacy of such information and

limit the use of such information to its evaluation of the Sale, and if it does not complete a Sale, shall return all such information to the Receiver, or in the alternative destroy all such information. The purchaser of any Property, including the Purchaser, shall be entitled to continue to use the personal information provided to it, and related to the Property purchased, in a manner which is in all material respects identical to the prior use of such information by the Debtor, and shall return all other personal information to the Receiver, or ensure that all other personal information is destroyed.

LIMITATION ON ENVIRONMENTAL LIABILITIES

16. THIS COURT ORDERS that nothing herein contained shall require the Receiver to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the Ontario *Environmental Protection Act*, the *Ontario Water Resources Act*, or the Ontario *Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Receiver from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Receiver shall not, as a result of this Order or anything done in pursuance of the Receiver's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

LIMITATION ON THE RECEIVER'S LIABILITY

17. THIS COURT ORDERS that the Receiver shall incur no liability or obligation as a result of its appointment or the carrying out the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part, or in respect of its obligations under sections 81.4(5) or 81.6(3) of the BIA or under the *Wage Earner*

Protection Program Act. Nothing in this Order shall derogate from the protections afforded the Receiver by section 14.06 of the BIA or by any other applicable legislation.

RECEIVER'S ACCOUNTS

18. THIS COURT ORDERS that the Receiver and counsel to the Receiver shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, and that the Receiver and counsel to the Receiver shall be entitled to and are hereby granted a charge (the "**Receiver's Charge**") on the Property, not to exceed $300,000 in aggregate, as security for such fees and disbursements, both before and after the making of this Order in respect of these proceedings, and that the Receiver's Charge shall form a first charge on the Property in priority to all security interests, trusts, liens, charges and encumbrances, statutory or otherwise, in favour of any Person, but subject to sections 14.06(7), 81.4(4), and 81.6(2) of the BIA.

19. THIS COURT ORDERS that the Receiver and its legal counsel shall only be required to pass their accounts from time to time if the Applicant makes a written request to the Receiver for such passing of accounts, in which case the accounts of the Receiver and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

20. THIS COURT ORDERS that prior to the passing of its accounts, if so requested, the Receiver shall be at liberty from time to time to apply reasonable amounts, out of the monies in its hands, against its fees and disbursements, including legal fees and disbursements, incurred at the normal rates and charges of the Receiver or its counsel, and such amounts shall constitute advances against its remuneration and disbursements when and as approved by this Court.

GENERAL

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

22. THIS COURT ORDERS that nothing in this Order shall prevent the Receiver from acting as a trustee in bankruptcy of the Debtor.

23. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Receiver and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Receiver, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Receiver and its agents in carrying out the terms of this Order.

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

25. THIS COURT ORDERS that the Applicant shall have its costs of this motion, up to and including entry and service of this Order, provided for by the terms of the Applicant's security or, if not so provided by the Applicant's security, then on a substantial indemnity basis to be paid by the Receiver from the Debtor's estate with such priority and at such time as this Court may determine.

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

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:
JUN 12 2012

PINNACLE CAPITAL RESOURCES LIMITED in its capacity as general partner of RED ASH CAPITAL PARTNERS II LIMITED PARTNERSHIP

Applicant

and

KRAUS INC., KRAUS CANADA INC., STRUDEX FIBRES LIMITED and 538626 B.C. LTD.

Respondents

Court File No. CV12-9731-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT TORONTO

RECEIVERSHIP ORDER

Cassels Brock & Blackwell LLP
2100 Scotia Plaza
40 King Street West
Toronto, ON M5H 3C2

John N. Birch LSUC #: 38968U
Tel: 416.860.5225
Fax: 416.640.3057
jbirch@casselsbrock.com

Larry Ellis LSUC #: 49313K
Tel: 416.869.5406
Fax: 416.640.3004
lellis@casselsbrock.com

Lawyers for the Applicant

Appendix "C"

Affidavit of Susan Mingie, CPA, Partner, DCF sworn on September 10, 2018.

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 KRAUS BRANDS INC., KRAUS CANADA LTD., KRAUS CARPET INC., KRAUS PROPERTIES INC., KRAUS USA INC., and STRUDEX INC.

Applicants

AFFIDAVIT
(sworn September 10, 2018)

I, SUSAN MINGIE, of the city of Kitchener, in the Province of Ontario, MAKE OATH AND SAY:

1. I am a partner with Deloitte Corporate Finance Inc. ("**DCF**") and, as such, have knowledge of the matters contained in this affidavit.

2. The Kraus Group ("Kraus") is a semi-vertically integrated manufacturer of broadloom / carpet and a distributor of a broad range of non-carpet flooring products sourced internationally and sold to the commercial and residential markets in Canada and the United States through a dealer network and big-box stores. Kraus is headquartered in Waterloo Ontario. The Kraus brand is synonymous with high-quality and on-trend products for over 50 years.

3. Kraus operates out of 21 strategically located distribution centers in North America: 11 dedicated and 10 managed by third parties. Of the dedicated locations, six

are in Canada and five are in the US. Of the 10 managed by third parties, six are in Canada and four are in the US.

4. Kraus has two distinct operations: a soft surface or broadloom/carpet manufacturing division known as the Kraus Carpet Division ("KCD") and the flooring products distribution or Traded Products Sales division ("TPS").

(a) KCD, is a semi-vertically integrated manufacturer of residential and commercial broadloom/carpets made from olefin-based polypropylene ("PP"), polyamide-based nylon ("PA") and polyester-based polyethylene terephthalate ("PET") yarns. KCD extrudes and spins its own PP and PA yarns and procures PET yarns from third parties for the underlying carpet manufacturing processes. KCD also purchases PP and PA yarns from third-party yarn producers to supplement in-house production, as necessary. KCD sells its carpets through a network of carpet dealers and big-box stores across North America.

(b) TPS distributes a wide-variety of flooring products, catering to over 10,000 commercial and residential customers, including main street commercial and residential sales customers, property management and home builders. Its broad product offering includes stone polymer composite tiles, luxury vinyl tiles, laminate, hardwood, under-pads and carpet-tile flooring.

5. Kraus was acquired by Hilco Capital in 2012. We understand a turnaround plan was implemented upon its acquisition which included, among other things, hiring a new management team and implementing extensive process improvements.

6. TPS has been a profitable and growing division. For the fiscal ended December 31, 2017 it had revenues of C$118 million.

7. Due to consumer preferences towards hard surface flooring (as a trendier and healthier flooring product) and cheaper broadloom manufactured in China, the carpet sector has continued to experience declining sales and profitability over the last two decades. As a result, the North American carpet manufacturing industry has gone through significant consolidation, with smaller companies failing or getting acquired by the major manufacturers such as Shaw and Tarkett. Due to excess capacity, high fixed manufacturing overhead, and general industry challenges which have resulted in reduced profit margins, KCD's profitability has not improved over time.

The TPS Divestiture Process ("Project Slate")

8. On March 20, 2018, Hilco engaged Deloitte Corporate Finance Inc. ("DCF") to manage the sale of the assets of TPS as a standalone business that needed to be carved out of Kraus. To that effect, Hilco and management of Kraus ("Management") developed a financial model to demonstrate the viability of the carved out TPS from Kraus. A standalone financial model for TPS comprising an income statement for three historical years and one forecasted year as well as a working capital analysis based on the year to date balance sheet was prepared (the "TPS Carve-out Model"). The income statement was based on actual TPS sales and cost of sales, with an allocated selling, general and administration cost structure based on the proportional sales of TPS division. The TPS Carve-out Model yielded a 10% EBITDA margin for FY18 and FY19.

9. DCF's role was to:

(a) Assist in the preparation of a Confidential Information Memorandum ("CIM");

(b) Contact a select strategic group of potential purchasers provided by the Shareholders and Management;

(c) Identify additional purchasers who would have the industry knowledge and financial ability to consummate a transaction;

(d) Market the opportunity in a disciplined manner and solicit Expressions of Interest ("EOI");

(e) Assist in the population of and management of the data room and the due diligence process;

(f) Provide a detailed walk-through of the TPS Carve-out Model to all parties in the data room;

(g) Coordinate and assist with Management Presentations;

(h) Solicit Letters of Intent ("LOI"); and

(i) Assist with ad-hoc requests pertaining to the divestiture process.

10. The divestiture process for TPS began with DCF conducting an in-depth due diligence as the sell-side advisor of the TPS Carve-out Model and review of the CIM. In-depth discussions with shareholders and Management were held to facilitate a comprehensive understanding of the businesses prior to refining marketing materials and communicating with prospective purchasers. This process ensured that as advisors, DCF

had the ability to properly position TPS and articulate its investment attributes. Additionally, it also allowed for the identification and anticipation of potential purchaser concerns on a variety of potential issues ranging from growth sustainability, margin trends to supplier risk, to name a few and therefore develop validated responses in order to preserve deal value.

11. The CIM described TPS' business in significant detail. It provided an overview of the following:

(a) Carve out of the hard surface business (engineered wood, carpet tile and hardwood distribution business) from Kraus;

(b) TPS' sales and distribution structure;

(c) An overview of the industry;

(d) A summary of relevant financial information; and

(e) A description of the transaction process for the asset purchase.

A copy of the TPS CIM is attached as Exhibit A.

12. Since speed to close, confidentiality, and an asset based transaction structure were a priority for the shareholders, a formal targeted auction was adopted with all parties given the same NDA and CIM, and similar amount of time to review the opportunity. An exhaustive list of potential purchasers were approached and competitive tension was maintained throughout the process in order to yield the highest price for the assets of TPS.

13. The list of potential strategic purchasers provided by the shareholder and management was augmented by DCF to include additional strategic and financial purchasers (the "Prospective Purchasers"). The list included domestic and international strategic and financing purchasers and was prepared based on several sources including:

(a) Flooring industry association membership listings;

(b) Analyst reports and research reports on the global carpet and flooring sectors;

(c) Industry research conducted by DCF to identify financial purchasers with whom such an acquisition would be within their growth strategy and investment criteria. Relevant financial purchasers were narrowed down for their ability to acquire Project Slate and either prior experience in the industry or their ownership in a portfolio company under which Project Slate could be tucked;

(d) Strategic purchasers were identified with the input of Management and general research to identify parties who would be able and willing to acquire Project Slate as an accretive acquisition; and

(e) DCF's knowledge of the industry and financial purchasers.

14. The initial purchaser's list for TPS was provided to the shareholders and Management for their input and approval.

15. As part of the sale process, DCF worked with Management to prepare the TPS opportunity summary ("Teaser"), which was distributed to potential purchasers along with a NDA. As is the custom in these processes, the Teaser outlined the acquisition opportunity available on a "no-names" basis, while the NDA provided protection to Kraus Group's interests during the transaction process. A copy of the Teaser is attached under Exhibit B. Following the execution of the NDAs, a password protect electronic copy of the CIM was provided to potential purchasers along with the counter-executed NDA.

TPS Process Timeline

16. The Teaser was distributed to Prospective Purchasers effective March 23, 2018.

17. In total, during the months of March and April 2018, DCF contacted by either phone or e-mail, 30 potential strategic purchasers and 29 financial purchasers. Of the parties contacted, seven strategic purchasers executed the NDA and were provided with the CIM and 14 financial purchasers executed the NDA and also were provided with the CIM. A copy of the strategic and financial purchaser lists are attached as Exhibit C.

18. Outlined in the CIM and in the EOI Process Letter, three EOIs were received on April 13, 2018. The indicated purchase price in the three EOIs were within 5.0 to 7.0 times normalized TPS Carve-out Model EBITDA provided in the CIM. These EOIs were acceptable to the shareholders and all three parties were invited to the next phase of the transaction and attend Management Presentations.

19. During the month of April and May, the three parties were provided access to a Data Room. The Data Room consisted of financial, operational, human resources, legal,

customer and supplier information to assist prospective purchasers to conduct their preliminary due diligence.

20. Three Management Presentations were conducted in late April and early May to a strategic purchaser Strategic #18 (the "Purchaser") and two financial purchasers, both experienced in the flooring distribution industry (Financial #2 and Financial #11). The objective of the Management Presentation is for the potential purchasers to meet management in person and gain a greater understanding of the business, the TPS Carve-out Model, industry dynamics (players, trends, challenges and opportunities) and growth opportunities so that along with their preliminary due-diligence, they can arrive at a well-supported price in their LOI. DCF distributed a draft LOI template to the three prospective purchasers after the Management Presentations.

21. In addition to providing the CIM and access to the Data Room, DCF also facilitated due diligence meetings and conference calls between Management and prospective purchasers, as required.

22. An additional Management Presentation occurred in mid- May with a potential purchaser (Strategic #13) with whom the Management team had prior discussions regarding a merger in 2017. The deal had not been consummated at the time. However, they expressed interest in continuing the discussions based on the CIM.

23. After the Management Presentations, the Purchaser requested exclusivity at a reduced price, which was rejected by the shareholders since early exclusivity (without an exclusivity premium) would not facilitate sufficient purchaser tension and could adversely

affect the transaction price. Strategic #13 was not able to continue in the process as a result of another acquisition that they currently had underway.

24. The two remaining financial purchasers, Financial #2 and Financial #11, performed due diligence on the carve out financial model. However, prior to submitting LOI's they raised concerns around their ability to close in a timely manner (both would require more time to fully validate the TPS Carve-out Model) and at a price commensurate with their EOI's.

25. DCF re-engaged with Strategic #18 with a timeline to close by August 31, 2018. An LOI was signed on May 24, 2018.

26. During the month of June, the Purchaser performed substantial due diligence including financial, IT, operational, sales and marketing as well as assessing integration and separation issues. On July 10, 2018, DCF was notified in writing by the the Purchaser that they would only close a substantially reduced price. Both parties agreed that the exclusivity was no longer in place, and DCF could solicit other offers.

27. During the month of July, DCF re-approached Financial # 2 and Strategic #13, but neither were able to re-engage – Financial #2 would need at least two more months to complete their due diligence and Strategic #13 revisited the opportunity but declined to proceed citing a need to focus on their own business needs at this time. DCF also coordinated a Management Presentation in late July with another financial purchaser (Financial #4) as they had expressed interest after exclusivity had been granted in May to the Purchaser. Financial #4 was unable to provide an EOI as they would require substantial time to perform due diligence.

28. Based on responses received during the TPS Process, DCF determined that approaching additional potential purchasers for interest in the TPS division would not yield any other meaningful opportunities to recover the value of the TPS Division. Furthermore, the deteriorated current financial situation of the Kraus Group of Companies would not allow sufficient time to approach additional potential purchasers

29. Consequently, it was agreed that the best option to maximize value was for DCF to continue to renegotiate a price with the Purchaser. After significant discussions, an LOI was negotiated and accepted on August 9, 2018.

30. As part of the legal and operational due diligence, it was determined based on a common agreement between DCF, Hilco and the Purchaser that a CCAA filing would be necessary to complete the TPS divestiture.

31. As of August 28, 2018, the Purchaser was still conducting legal and operational due diligence and working towards the necessary transition service agreements and integration plan for the closing of the transaction.

The KCD divestiture Process ("Project Champion")

32. On June 26, 2018, DCF was engaged by the shareholders to assist with the divestiture of KCD. With the final due diligence process underway on TPS with the Purchaser, the shareholders decided to market KCD to align with the closing date for TPS.

33. During the TPS divestiture process, parties were made aware that Kraus would also be divesting of the KCD business. Unfortunately, no party expressed an interest in acquiring the assets and undertaking of the KCD business.

34. The divestiture of KCD was to be based on the transfer of customer relationships; the current order book; all or select raw materials, work-in-process, and finished goods inventory; and manufacturing equipment associated with the high-volume and in-trend SKUs of the business (the "Streamlined Business").

35. The financial information for KCD comprised the sales and gross margins of the Streamlined Business (the "KCD Carve-out Model").

36. DCF's role was to:

(a) Assist in the preparation of a Confidential Information Memorandum ("CIM");

(b) Contact a select strategic group of potential purchasers provided by the Shareholders and Management;

(c) Identify additional suitable purchasers who could gain from carpet manufacturing assets and inventories;

(d) Market the opportunity in a disciplined manner and solicit Expressions of Interest ("EOI");

(e) Assist in the population of and management of the data room and the due diligence process;

(f) Provide a detailed walk-through of the KCD Carve-out Model to all interested parties;

(g) Coordinate and assist with Management Presentations;

(h) Solicit Letters of Intent ("LOI"); and

(i) Assist with ad-hoc requests pertaining to the divestiture process.

37. A CIM was developed to highlight the streamlined business comprising 1024 SKUs (74 in-trend product styles in a variety of colors), identifying the key assets and critical manufacturing employees. A transition plan was developed by Management to facilitate the redeployment of these assets to the location of a potential purchaser in a well-planned manner with full project management support to avoid any inventory or quality control disruptions. These details were provided in the CIM. A copy of the KCD CIM is attached as Exhibit D.

38. DCF, with input from Management, prepared a list of potential strategic purchasers for KCD. The list of Prospective Purchasers was limited to strategic purchasers who would have the ability to integrate the business into another business. The list of Prospective Purchasers included domestic and international strategic purchasers, key supplier and customer relationships, and included:

(a) Flooring industry association membership listings;

(b) Analyst reports and research reports on the global carpet and flooring sectors; and

(c) Input from management.

39. The potential purchaser list for KCD was completed on June 29, 2018 and consisted of 13 approved purchasers by the shareholders. A copy of the strategic and financial purchaser lists is included in Exhibit E.

40. A Teaser for KCD was prepared and circulated with a NDA to approved potential purchasers. A copy of the KCD Teaser is attached as Exhibit F. DCF commenced approaching the KCD potential purchasers on July 4, 2018. Similar to the process with TPS, 6 CAs were executed and CIM's subsequently sent.

41. Of the 6 purchasers that received and reviewed the CIM, 5 did not proceed to request further information nor did they express any interest in meeting with management to discuss the opportunity for several reasons, summarized as follows:

(a) The KCD opportunity did not present a strategic fit from a geography, technology and/or customer point of view relative to the potential purchaser's existing operations; or

(b) Purchasers were concerned that the current market has more supply than demand for their carpet business and investment in KCD's assets would not benefit their business

42. Remaining purchasers who were contacted with the KCD Teaser but did not execute a NDA citing no intention to proceed for the following reasons:

(a) The carpet manufacturing industry in North America is a very tough sector;

(b) The foreign approached purchasers expressed no interest to invest in North American manufacturing operations; and/or

(c) No interest to further invest in carpet manufacturing assets.

43. One Management Presentation and a facility tour was conducted on July 27, 2018 for Strategic #13. Subsequently, on August 5, 2018, Strategic #13 indicated they could not complete the sale given the recent acquisition they had undertaken and their concerns with the current state of the North American carpet industry.

44. On August 14, a supplier to KCD (Strategic #45) was approached to acquire the assets of the KCD opportunity. Following execution of the NDA, Strategic #45 obtained access to the dataroom on August 16, 2018 and commenced purchaser due diligence.

45. Based on responses received during the KCD Process, DCF determined that approaching additional potential purchasers for interest in the KCD Division would not yield any other meaningful opportunities to recover the value of the KCD Division. Furthermore, the deteriorated current financial situation of the Kraus Group of Companies would not allow further time to approach additional potential purchasers.

46. Consequently, it was agreed that the best option to maximize value was for DCF to continue to assist with the purchaser due diligence and related negotiations for a probable transaction with Strategic #45. As of September 10, 2018, Strategic #45 remains interested and are still reviewing various options of the KCD opportunity.

SWORN BEFORE ME at the City of Toronto, in the Province of Ontario on ....10....September.., ..2018

Rosa Falesy

Commissioner for Taking Affidavits
(or as may be)

Susan Mingie

Susan Mingie

Rosa Maria Ferreira Gomes Falesy, a Commissioner, etc., Province of Ontario, for Deloitte LLP, Chartered Accountants, and Deloitte Restructuring Inc., Trustee in Bankruptcy. Expires December 11, 2018.

Exhibit A

Project Slate CIM Final

Rosa Falesy

Rosa Maria Ferreira Gomes Falesy, a Commissioner, etc.,
Province of Ontario, for Deloitte LLP, Chartered
Accountants, and Deloitte Restructuring Inc.,
Trustee in Bankruptcy. Expires December 11, 2018.

Kraus Group – Trading Products Sales Division

Confidential Information Memorandum

April 2018

Strictly Private & Confidential

Disclaimer

This Confidential Information Memorandum (the "Memorandum") is being distributed to a limited number of parties (collectively referred to as "Potential Purchasers" and individually as a "Potential Purchasers") that have expressed an interest in acquiring the assets of the distribution business of Kraus Trading Product Sales Division ("TPS" or the "Company ") and who have entered into a confidentiality agreement (the "Confidentiality Agreement"). This Memorandum was prepared by management of the Company with the assistance of Deloitte Corporate Finance Inc. ("DCF" or the "Marketing Agent"), based on information provided by the Company without independent verification thereof by DCF. The sole purpose of this Memorandum is to assist the Potential Purchasers in deciding whether to proceed with a further investigation and possible acquisition of the assets of the Company. This Memorandum does not purport to be all-inclusive nor to contain all the information that a Potential Purchaser may require in investigating the Company. This Memorandum shall remain the property of the Company and neither the Memorandum nor the information contained herein may be copied, reproduced, disclosed or distributed in whole or in part at any time without the prior written consent of the Company or as otherwise contemplated in the Confidentiality Agreement. This Memorandum is being delivered to Potential Purchasers upon the express understanding that such Potential Purchasers will use it only for the purpose set forth above. By accepting delivery of this Memorandum, the Potential Purchaser agrees that it will hold this Memorandum and all information made available to it in connection with its investigation of the Company strictly confidential in accordance with the terms of the Confidentiality Agreement previously executed by it. Upon request, the Potential Purchaser will promptly return to the Company all material received from the Company, DCF or any of their respective shareholders, directors, officers, employees, agents, advisors or representatives (collectively, their "Representatives"), including this Memorandum and all compilations, analyses, financial models and other reports derived therefrom, without retaining any copies thereof.

No representation or warranty, express or implied, is made by the Company, DCF or their respective Representatives as to the accuracy or completeness of the information contained in this Memorandum or otherwise furnished to a Potential Purchaser in connection with any investigation of the Company. The Company, DCF and their respective Representatives expressly disclaim any and all liability which may be based on such information, errors therein or omissions therefrom. A Potential Purchaser shall be entitled to rely solely on the representations and warranties made to it in writing in any definitive agreements when and if any are executed in connection with its acquisition of some or all of the assets of the Company. Each Potential Purchaser of this Memorandum should perform its own independent investigation and analysis of the transaction, the Company and its business, assets and liabilities. This Memorandum and the information that it contains are not a substitute for the Potential Purchaser's independent evaluation and analysis. Unless indicated, the financial information contained in this Memorandum is un-audited and is denominated in Canadian dollars. The Company's fiscal year end is December 31. The anticipated financial information contained herein was prepared by the management of the Company based on information available at the time the Memorandum was prepared, and there are no representations, warranties or other assurances that any of the projections set forth herein will be realized. None of the contents of this Memorandum, any enclosures herewith, or any documents related hereto should be constituted as legal or investment advice. Potential Purchasers should consult their own counsel, accountants and business advisors as to the legal, tax and related matters concerning an acquisition of some or all of the assets of the Company.

This Memorandum shall not be deemed an indication of the condition (financial or otherwise) of the Company, nor shall it constitute an indication that there has been any change in the business or affairs of the Company since the date hereof. All contacts for additional due diligence by Potential Purchasers must be arranged by and through DCF. Potential Purchasers should not contact suppliers, customers, employees or Representatives of the Company under any circumstances. DCF will co-ordinate all communication, inquiries and/or requests for additional information on behalf of Potential Purchasers.

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Transaction Process

- The Company would like to accord Potential Purchasers fair and equal treatment in undertaking their investigations and submissions of Expressions of Interest ("EOI"). The Company would also like to move expeditiously to conclude the contemplated transaction. As such, DCF will be managing the contemplated transaction in accordance with the Group's objectives and the following timeline:

Transaction process	Timeline
Circulation of Confidential Information Memorandum	April 2018
Submissions of EOI	April 13th , 2018
Review of due diligence materials, data room access and management presentations	April/May 2018
Submissions of Letter of Intent ("LOI") and marked-up vendor supplied LOI	May 2018
Selection of purchaser and negotiation of definitive agreements	May 2018
Target closing date	June 2018

- This Confidential Information Memorandum document has been distributed to qualified Potential Purchasers as determined by the Company who have entered into a Confidentiality Agreement with the Company. Potential Purchasers will be asked to submit an EOI for all of the assets of the Company by no later than April 13th, 2018. DCF anticipates selecting a small number of Potential Purchasers from the EOIs received to participate in a more formal process involving comprehensive due diligence and presentations.
- The following DCF contacts will only receive EOIs until 5:00 pm (EST) on April 13th, 2018

Susan Mingie
Senior Managing Director
519-650-7701
smingie@deloitte.ca

Ovais Ghafur
Managing Director
416-601-6602
oghafur@deloitte.ca

Kristian Rochon
Vice President
416-643-8045
krochon@deloitte.ca

Oni Prisecaru
Associate
519-650-7630
onprisecaru@deloitte.ca

Deloitte Corporate Finance Inc.
8 Adelaide Street, Suite 200
Bay Adelaide Centre – East Tower
Toronto, ON, Canada
M5H 0A9

Section

01

Executive Summary

Executive Summary

Transaction Rationale/Overview

- In 2012, Hilco Capital ("Hilco" or the "Shareholders"), a private equity firm based in the UK, with global operations, acquired the Kraus Group of Companies ("Kraus" or the "Group"). Since its acquisition, Hilco has successfully turned around the Group and are now contemplating the divestiture of the Group's flooring distribution division, known as the Kraus Trading Product Sales Division ("TPS" or the "Company"), encompassing both its Canadian and U.S operations.
- EOI's for the Company will be assessed in the context of: (i) Valuation, (ii) Transaction structure, and (iii) Ability to close on a timely basis.

Investment Opportunity

- Headquartered in Waterloo, Ontario, Canada, with operations in Canada and the U.S, Kraus is a manufacturer and distributor of flooring products. With over half a century of industry standing, Kraus has grown to become synonymous with high-quality and on-trend products.
- TPS distributes a wide-variety of flooring products, catering to over 10,000 commercial and residential customers, including main street commercial and residential sales customers, property management and home builders. The TPS product offering includes stone polymer composite tiles, luxury vinyl tiles, laminate, hardwood, under-pads and carpet-tile flooring.
- TPS operates out of 21 strategically located distribution facilities across North America, of which 11 are dedicated and 10 are third-party managed, giving the Company the ability to service key customer segments. Its dedicated distribution facilities include six in Canada and five in the U.S., and its third-party distribution arrangements include six facilities in Canada and four in the U.S.
- Following a turn-around of the Company, which included the on-boarding of new management and various other process improvements, TPS has experienced healthy top line growth and profitability. The Company achieved total revenues of $118M CAD and a normalized EBITDA margin of 10.8% in FY2017A and is expected to generate total revenues of $130M CAD and a normalized EBITDA margin of 12.7% for FY2018E.

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Executive Summary: Key Investment Highlights

1	***Strong sales force with a North American distribution infrastructure***	• TPS has a well-trained and motivated North American sales force. • The Company benefits from multiple strategically located distribution centres in the U.S. and Canada, in addition to third-party distribution agreements, ensuring inventory availability and optimal delivery time.
2	***Large and loyal North American customer base***	• The Company has a loyal and recurring customer base, encompassing over 10,000 customers, including main street commercial and residential sales customers, property management and home builders.
3	***Entrenched supplier relationships and "On Trend" premium product offering***	• TPS has a strong portfolio of on-trend, premium flooring products marketed under the suppliers' and TPS branded names. Products offered include stone polymer composite tiles, luxury vinyl tiles, laminate, hardwood, under-pads and carpet-tile flooring. • The Company has entrenched and meaningful relationships with key North American and international suppliers of traditional and "on-trend" products.
4	***Strong financial performance***	• TPS has continued to demonstrate strong profitability and consistently achieved gross margins of over 22%. Since FY2015, the Company has realized healthy normalized EBITDA growth, representing a CAGR of 17.4% between FY2015 to FY2017.

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Section

02

Growth Opportunities & Potential Synergies

Growth Opportunities

Established North American Company with Global Potential

TPS offers a Potential Purchaser a sizeable, established hard surface distribution business with strategic locations in both Canada and the U.S with the ability to expand globally.

Instantaneous Margin Enhancement

The margins associated with the TPS business are very attractive and a transaction could be executed by a competitor to simplify and expeditiously integrate the Company to benefit from an additional $118M CAD of revenues and over $35M CAD of gross profit to an existing flooring distribution business.

Expanded Product Offering

The Company has an established hard-flooring distribution business and there remains opportunity to diversify the Company 's product offering and exploit certain soft service opportunities.

New Product Launches

The Company has close relationships with major suppliers and industry influencers, who have a pulse on current customer trends. New product launches catered towards today's consumers help bolster sales and win new customers.

TPS Related Potential Synergies

Potential Synergies

The acquisition of TPS by a flooring products distributor could yield the following synergies in addition to the additive revenues and profitability:

- **Reduction of sales force**
- **Reduction of duplicate warehousing**
- **Reduction of call centers**
- **Reduction of duplicate senior management**
- **Reduction of IT, HR and finance department staff**
- **Procurement savings through economies of scale**

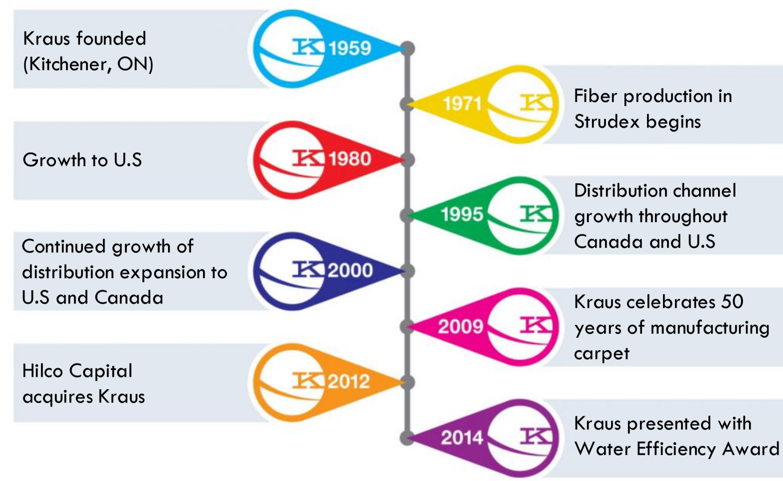
Section

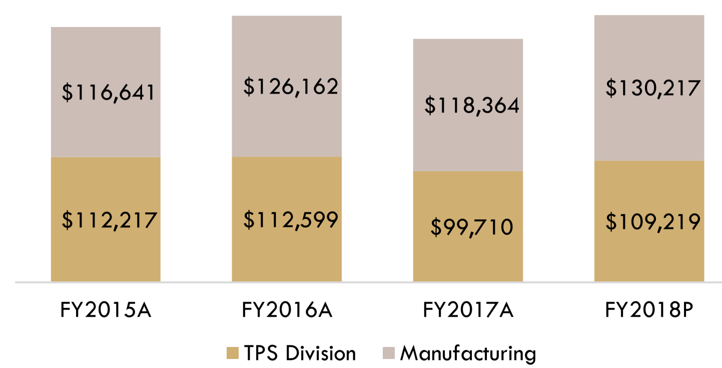
03 Kraus Overview

Overview of Kraus

- Founded in 1959, Kraus has maintained a long history of delivering high-quality flooring products.
- The Group operates out of 21 strategically located distribution centers across Canada and the U.S. This overall distribution arrangement, ensures that Kraus can cover a wide range of markets and geographies.
- The Group has two distinct operations, its manufacturing division ("Manufacturing") and the TPS or distribution division. Manufacturing produces soft surface flooring products (referred to as broadloom or carpet in some parts of the CIM) alongside accessories such as under-pads and adhesives. The TPS division primarily distributes hard-surface flooring products to customers in Canada and the U.S.
- The Group generated $218M CAD in revenues for FY2017, with the TPS division accounting for $118M CAD and the Manufacturing accounting for the remaining $100M CAD.
- Since the acquisition of Kraus in 2012, Hilco has managed to drive growth, profitability and successfully turned around both divisions. Kraus continues to be a leader and holds a healthy market share for its soft surface flooring products and distribution of hard-surface flooring products.

"You can trust Kraus to provide you with stylish and classic flooring solutions that will meet all of your needs, priced fairly and brought to you with exceptional customer service. At Kraus, we care about your floor."
– Kraus' mission statement





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Section

04

TPS Product Overview

TPS Product Overview

Kraus branded carpet tile

Formally introduced into the product line in 2011, TPS distributes and sells a wide variety of Kraus branded carpet tile products sourced primarily from international vendors.

Carpet tile products offering includes over 100 different SKUs which vary by:

- Color: colors include beiges, blues, browns, golds and blacks
- Backing: ArmorBac, EuroBac and FiberCore
- Format: square format with cutting edge new plank formats
- Material type: nylon, ultrel nylon and polypropylene.

Hard surface flooring products

Hard surface flooring products are sold under the Kraus brand or under the respective vendor managed brand. Hard surface flooring products include luxury vinyl tile, hardwood and laminate products.

Luxury Vinyl Tile

Luxury vinyl tile products are sold in over 150 different SKUs which vary by:

- Color: including beiges, whites, browns, golds, grays, oranges and reds
- Installation: including floating floor installation, glue down and loose lay installation
- Look: including a tile and stone look, wood plank look and sheet look.
- Lifestyle choice: including offering products catered to pets, children or high traffic areas.

Carpet tile

Luxury vinyl tile

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TPS Product Overview (Cont.)

Hard surface flooring products (continued)

The Company distributes and sells premium hard surface flooring products sourced from domestic and international vendors. Hard surface products include:

Hardwood

The hardwood products are sold in over 100 different SKUs which vary by:

- Shade: including a dark, medium and light shades,
- Look: including a smooth, hand scraped, wire brushed, thermos treated, soft scrape and wax oil looks
- Wood species: including oak, maple, hickory, ash, walnut, acacia and birch.
- Construction type: as either a engineered product or solid wood product

Laminate

Laminate products are sold in over 50 different SKUs which vary by:

- Color: including beiges, whites, browns, golds, grays, oranges and reds
- Appearance: including an urban, town or a country appearance respectively.
- Finish: including smooth, textured, embossed and wire brushed
- Thickness: varying between 8mm and 12mm

Hardwood

Laminate

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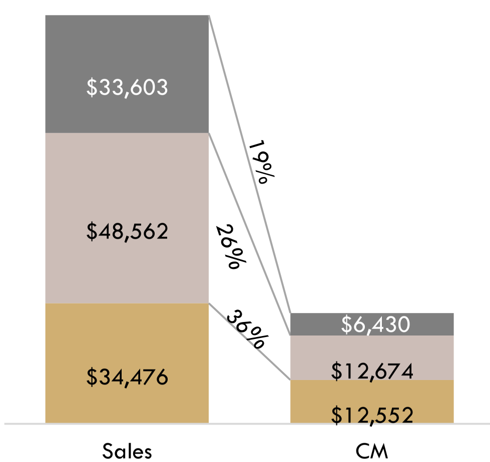
TPS Product Overview (Cont.)

Sales performance by product groups

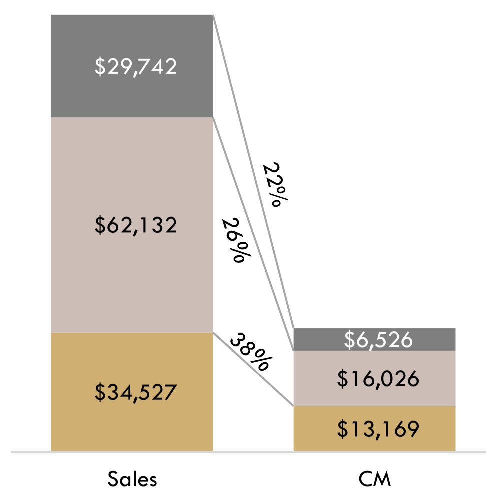
The Company's sales success is attributed to fact that TPS continually delivers new and "on-trend" quality flooring products. The Company's large supplier network and deep relationships, product management and sales capabilities have allowed it to play a significant role in the Canadian and U.S. market.

With over 400 flooring product SKUs ~~on~~ in the market, the Company focuses its sales in three different categories: Kraus branded carpet tile, Kraus branded hard surface and vendor branded hard surface flooring products. Across the three categories, the Company has continued to improve its contribution margin over the past three fiscal years, as illustrated below:

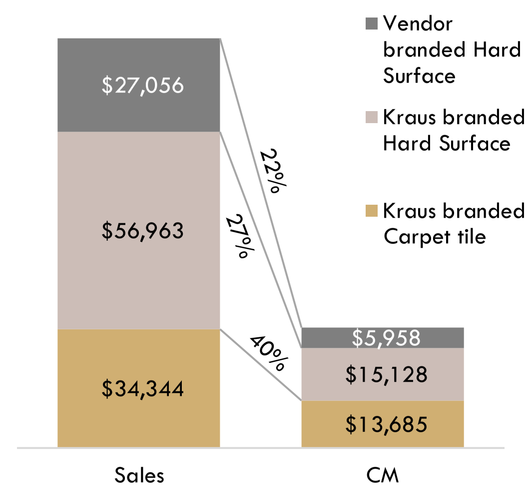
FY2015 Sales & Contribution Margin



FY2016 Sales & Contribution Margin



FY2017 Sales & Contribution Margin



The Company's established vendor relationships in North America, Europe and China allow for optimal access to new product releases across vendor branded and Kraus branded products while maintaining control over product costs. This is particular valid for suppliers who manufacture the Kraus branded carpet tile line of products and generate increasingly higher contribution margins.

Section

05

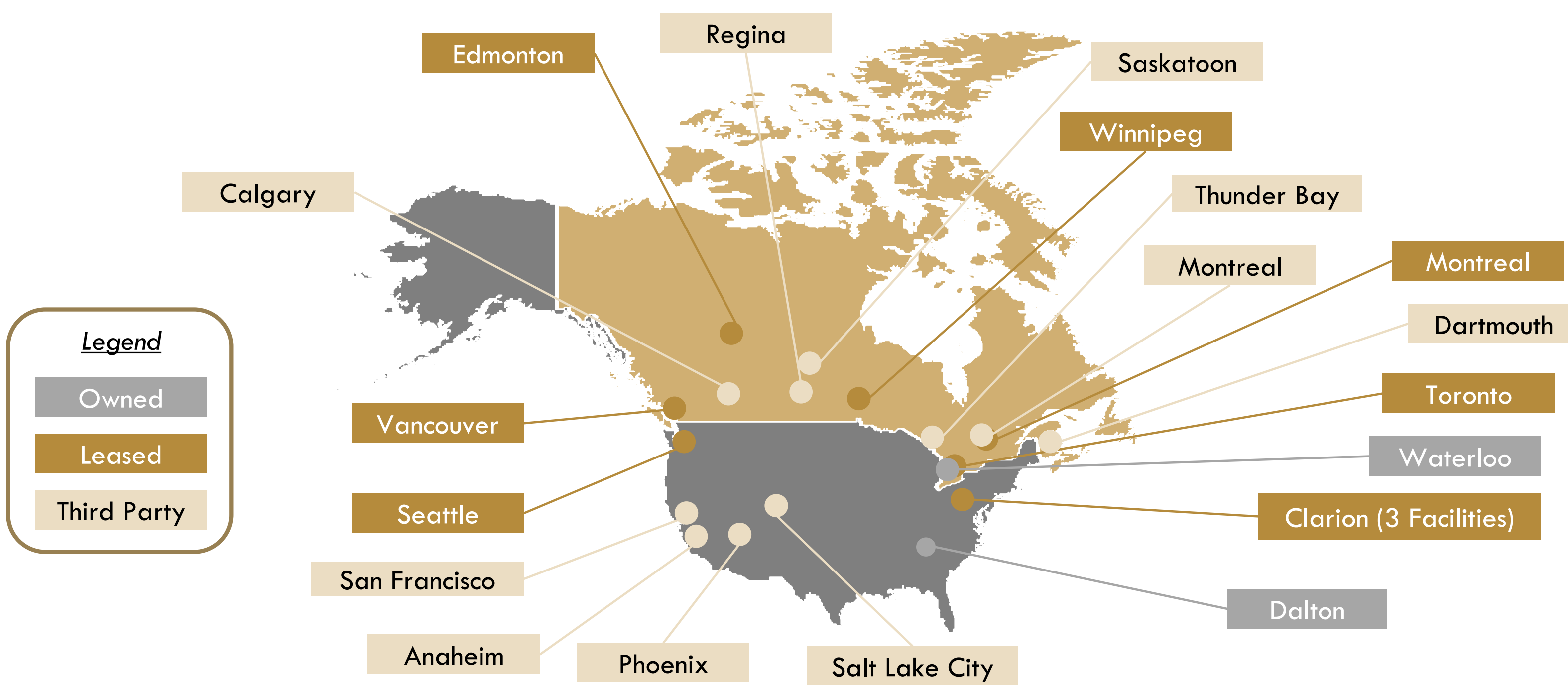
TPS Operations

TPS Operations: Distribution Network

TPS' distribution network operates through two distinct operational functions: the distribution network and the dealer/display infrastructure, enabling TPS to concurrently service customer demand and release new "on-trend" products and remain a market leader.

Distribution Network

Kraus' 21 distribution facilities across North America are strategically located to service key markets and customers, as illustrated below:



Note: All distribution facilities of the Kraus Group have been leased by TPS. However, the three facilities leased in Clarion are predominantly used to warehouse the soft surface flooring products of the Group. These three facilities could be closed down by the new owner, thus representing cost synergies for TPS.

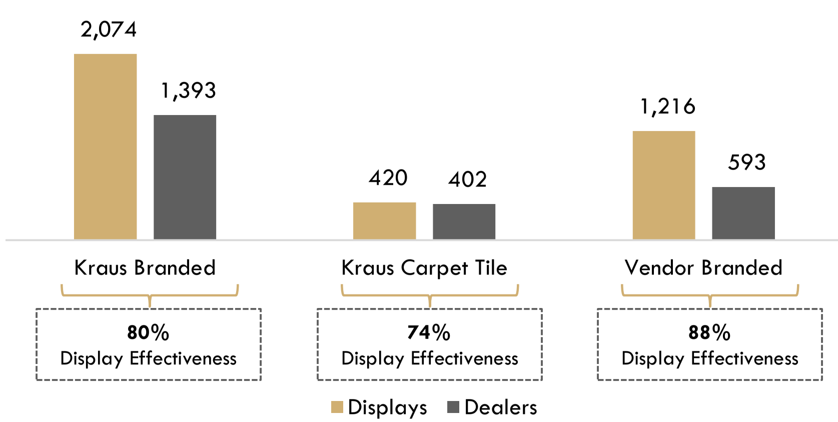
TPS Operations: Dealers and Displays

Dealer/Display Infrastructure

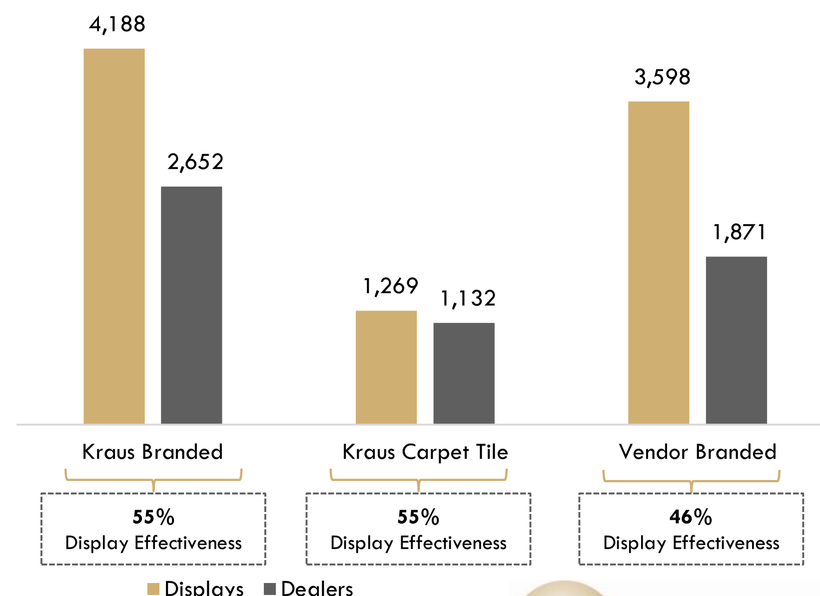
The TPS division has built an extensive and lucrative displays and dealers infrastructure throughout the North American flooring market. Displays refer to individual display stands located at flooring retailers (Big Box retailers and flooring specialty stores). Dealers represent relationships with individuals who advocate Kraus products such as architects, designers and contractors.

Display's effectiveness can be measured as the percentage of placed displays that have achieved sales in the previous 12 months. As TPS continues to build its market presence in the south-eastern and south-western U.S market, productivity of displays and dealer networks is still in the process of being optimized resulting in a lower display effectiveness in the U.S compared to Canada.

Dealers and Displays in Canada



Dealers and Displays in U.S



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TPS Operations: Suppliers

Suppliers

- To ensure product quality, the TPS division has a stringent procurement model in place which includes quality control assessments, supplier certifications, site visits, capabilities assessments and reference checks for all of its suppliers.
- TPS currently sources parts and components from approximately 30 suppliers, 17 of which are located in North America or Europe. The Company also uses 13 Chinese vendors to supply the Kraus Carpet Tile products. All supply contracts are purchase order based with approximately two weeks and four weeks of lead time for North American and European suppliers, respectively and approximately three months lead time for its Chinese suppliers.

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Section

06

TPS Financial Overview

Financial Overview: Basis for Financials

The Financial discussion provides an overview of TPS' standalone financial position:

- TPS operating results
- Income statement and revenue breakdown by geography
- Sales & Marketing
- Distribution Overheads
- Administration and IT expenses

Basis of financial information

The financial information presented reflects the Company's fiscal year ended December 31st.

All combined figures are represented in $CAD. For all of the Group's U.S. operations, financials are presented in $CAD and converted at a rate of $1.30 CAD/USD.

As the TPS division represents a carve-out from the operations of the Group, select adjustments have been applied on a consistent basis to the historical financial statements to reflect standalone TPS revenues and expenses and thus present normalized earnings.

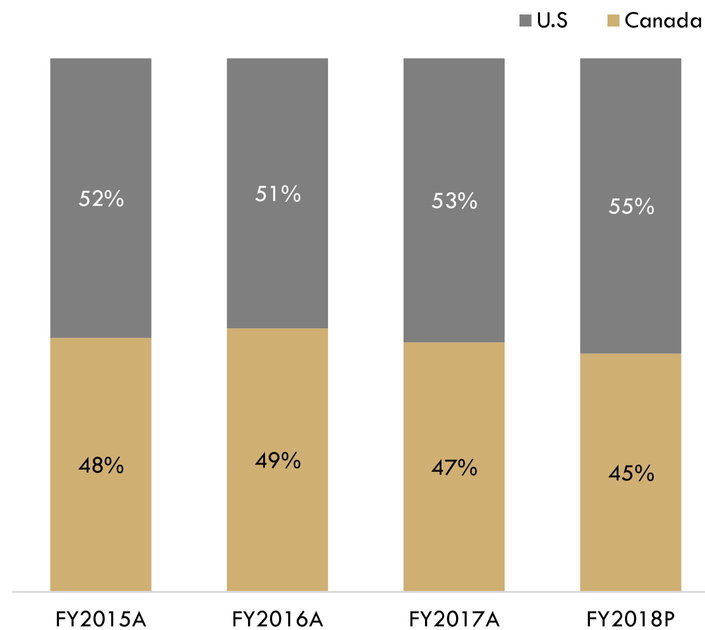
Financial Overview: Financial Results

TPS Financial Results

Outlined below is a summary of the combined financial results for the TPS division for the fiscal years ending December 31, 2015, 2016 and 2017 and the forecasted results for the fiscal year ending December 31, 2018.

($CAD 000's)	FY2015A	FY2016A	FY2017A	FY2018P
Sales	**$116,641**	**$126,402**	**$118,364**	**$130,217**
Product Cost	84,985	90,680	83,593	90,278
Contribution Margin	**31,656**	**35,721**	**34,771**	**39,939**
Contribution Margin %	27.1%	28.3%	29.4%	30.7%
Freight & Other Costs	(5,179)	(3,599)	(3,447)	(4,195)
Gross Profit	**26,477**	**32,123**	**31,323**	**35,744**
Gross Margin %	22.7%	25.4%	26.5%	27.4%
SG&A	(18,672)	(18,267)	(18,498)	(19,217)
EBITDA	**7,805**	**13,856**	**12,825**	**16,527**
EBITDA Margin %	6.7%	11.0%	10.8%	12.7%

Sales by geography



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Financial Overview: Customer Breakdown

TPS Revenue by Customer

TPS caters to a loyal customer base with over 2,000 residential and commercial customers in Canada and over 6,000 residential and commercial customers in the U.S, providing recurring revenue streams for the Company.

In Canada, its top ten customers generated $7,699 or only 13.9% of FY2017 revenue. The largest Canadian customer represented 2.7% or $1,497of total Canadian TPS revenues. In the U.S, its top ten customers generated $7,523 or 12.1% of FY2017 revenue. The largest U.S customer represented 3.9% or $2,428 of total U.S TPS revenues.

The below top ten customers excludes Big Box retail customers in Canada and the U.S.

Canada				U.S		
Customer	**FY2017 Revenue**	**% of Revenue**		**Customer**	**FY2017 Revenue**	**% of Revenue**
Customer # 1	$1,497	2.7%		Customer # 1	$2,428	3.9%
Customer # 2	866	1.6%		Customer # 2	1,735	2.8%
Customer # 3	831	1.5%		Customer # 3	750	1.2%
Customer # 4	815	1.5%		Customer # 4	418	0.7%
Customer # 5	775	1.4%		Customer # 5	410	0.7%
Customer # 6	722	1.3%		Customer # 6	394	0.6%
Customer # 7	639	1.2%		Customer # 7	382	0.6%
Customer # 8	539	1.0%		Customer # 8	369	0.6%
Customer # 9	529	1.0%		Customer # 9	331	0.5%
Customer # 10	486	0.9%		Customer #10	307	0.5%
Other	47,658	86.1%		Other	55,483	87.9%
Total	**55,358**	**100%**		**Total**	**63,006**	**100.0%**

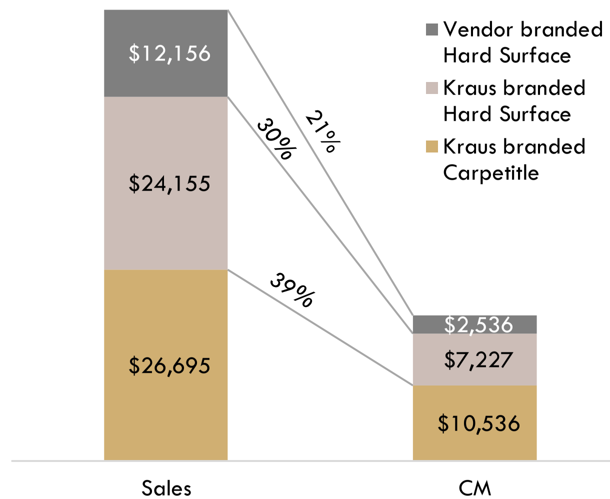
Financial Overview: U.S Revenue

TPS Financial Results by Geography – U.S

The U.S represents a significantly larger market than Canada and the Company is increasing its market presence through an expansion of product offerings and optimization of the U.S distribution network to serve over 6,000 residential and commercial customers. The Company generated $63M CAD in revenues, and an EBITDA margin of 14.1% for FY2017, summarized below:

($CAD 000's)	FY2015A	FY2016A	FY2017A	FY2018P
Sales	**61,123**	**63,947**	**63,006**	**72,022**
Product Cost	43,800	44,945	42,708	47,931
Contribution Margin	**17,323**	**19,002**	**20,298**	**24,090**
Contribution Margin %	28.3%	29.7%	32.2%	33.4%
Freight & Other Costs	(1,728)	(697)	(1,130)	(1,667)
Gross Margin	**15,595**	**18,305**	**19,168**	**22,423**
Gross Margin %	25.5%	28.6%	30.4%	31.1%
SG&A	(10,570)	(10,035)	(10,285)	(10,764)
EBITDA	**5,025**	**8,270**	**8,883**	**11,659**
EBITDA %	8.2%	12.9%	14.1%	16.2%

FY2017 U.S Sales & Contribution Margin



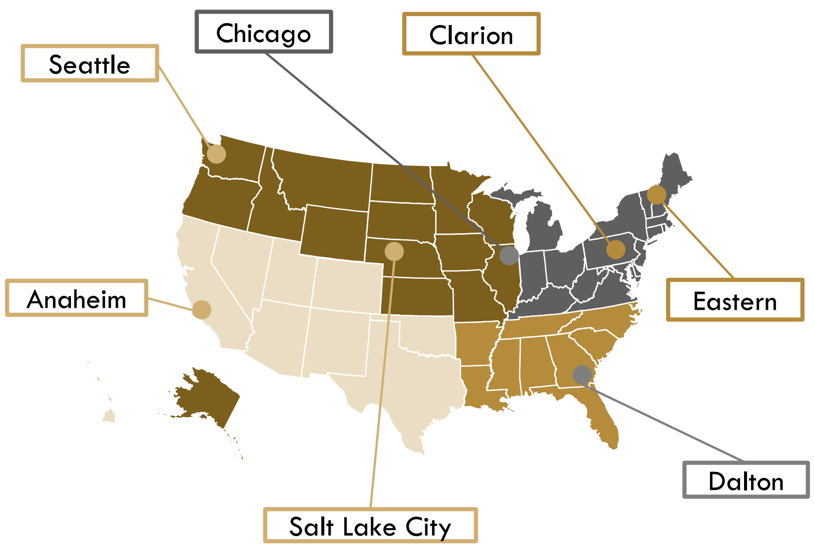
Commentary

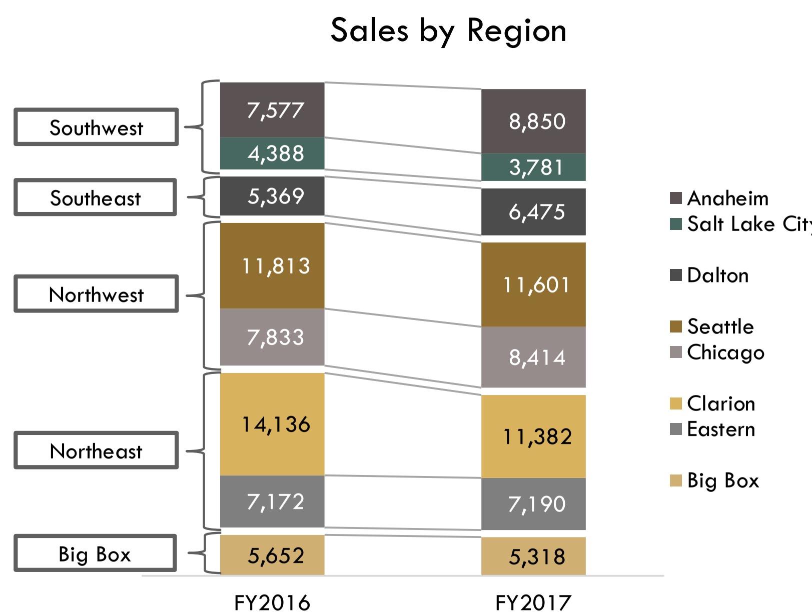
TPS' U.S revenue decreased slightly between FY2016 and FY2017 primarily due to turnover of sales staff in the Northwest region. Absent the turnover, TPS U.S successfully completed significant developments including an increase in the number hard surface products offered to U.S customers with a focus on expanding revenues to higher margin carpet tile products.

Financial Overview: U.S Revenue (Cont.)

TPS Financial Results by Geography – U.S

TPS U.S segments its operations through the following core regions: North East, North West, South East and South West for all Non-Big Box store customers. Nationwide Big Box store customers are monitored separately.





Commentary

TPS U.S has experienced revenue growth in the Southwest and Northwest regions, and a decrease in revenue in the Northeast regions, primarily due to sales staff turnover, which has since been addressed. TPS generated Big Box store revenue of $5.3M CAD in FY2017.

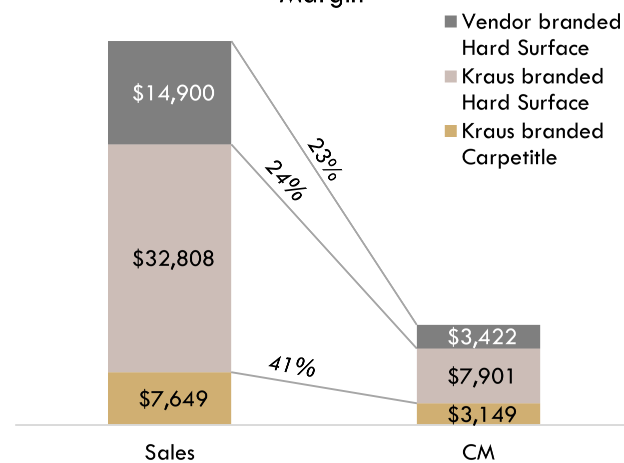
Financial Overview: Canadian Revenue

TPS Financial Results by Geography - Canada

TPS Canada is an established flooring product distributor, serving over 2,000 residential and commercial customers, which generated $55.4M CAD in sales with an EBITDA margin of 7.1% for FY2017, summarized below:

($CAD 000's)	FY2015A	FY2016A	FY2017A	FY2018P
Sales	**$55,518**	**$62,454**	**$55,358**	**$58,195**
Product Cost	41,186	45,735	40,885	42,347
Contribution Margin	**14,332**	**16,719**	**14,473**	**15,849**
Contribution Margin %	25.8%	26.8%	26.1%	27.2%
Freight & Other Costs	(3,451)	(2,902)	(2,317)	(2,528)
Gross Margin	**10,882**	**13,818**	**12,156**	**13,320**
Gross Margin %	19.6%	22.1%	22.0%	22.9%
Total SG&A	(8,102)	(8,232)	(8,214)	(8,452)
EBITDA	**2,780**	**5,585**	**3,942**	**4,868**
EBITDA %	5.0%	8.9%	7.1%	8.4%

FY2017 Canadian Sales & Contribution Margin



Commentary

TPS' Canadian market share has remained at 6% between FY2015 and FY2017, despite market contractions. FY2017 Sales in Canada decreased from the prior fiscal year due to macro economic pressure from the downturn in the natural resources sector in Calgary and Edmonton and fiscal policy changes affecting the residential real estate market in British Columbia.

TPS' Canadian revenues also decreased from FY2016 mainly due to a lack of new product launches. Product launches ramped up from two new product launches in 2016 to 18 new product launches in 2017 amplifying the selection of product that are offered to the U.S and Canadian markets.

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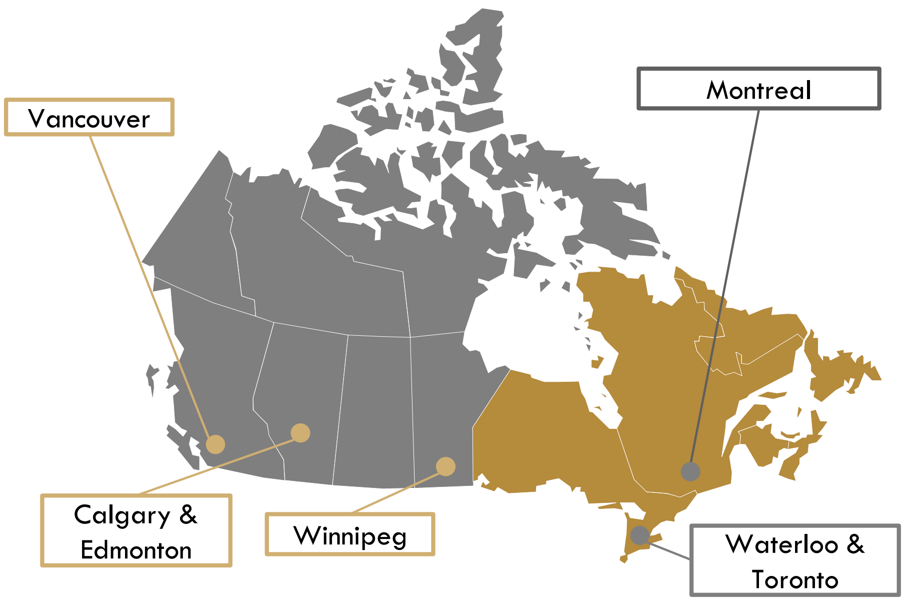
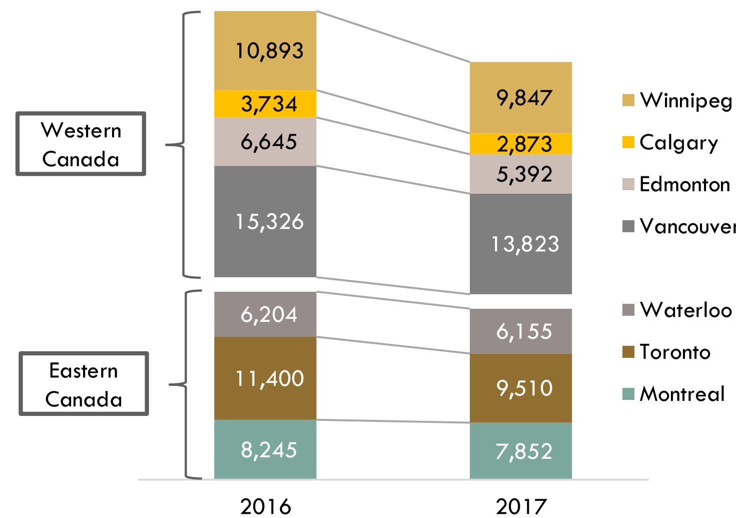
Financial Overview: Canadian Revenue

TPS Financial Results by Geography - Canada

TPS Canada segments its operation through two distinct regions: Western and Eastern Canada. Within both Western and Eastern Canada, the Company also monitors performance by sales office territories (seven in Canada, as outlined below).





Commentary

TPS generated revenues of $31.9M in Western Canada in FY2017, with weakened performance due to negative macroeconomic trends in Calgary and Edmonton and a slowdown of the Vancouver residential real restate market. In Eastern Canada, TPS generated $23.5M of revenues for FY2017, with weakened performance due to a lack of new product releases, turnover of territory managers and a decrease of transactions in the Ontario residential real estate market.

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Financial Overview: Sales & Marketing

TPS Sales & Marketing

Sales and Marketing expenses represent the greatest proportion of TPS indirect costs. On a standalone basis, TPS incurred $3.4M and $4.6M in Sales and Marketing expenses in Canada and U.S, respectively:

Wages and Benefits – Across both Canada and the U.S, wages and benefits for the TPS Division reflects three salespeople for each sales office amounting to 21 employees in Canada and 24 employees in the U.S.

Other sales costs – Costs include transportation expenses, training and education costs, travel, meals and entertainment costs, advertising costs, tradeshow expenses, costs for displays and booklets, and cellphone costs.

Sales and Marketing Costs do not include cost of samples used for sales and marketing purposes.

TPS Canada ($CAD 000's)	2015A	2016A	2017A	2018P
Base Wages	$1,237	$1,099	$1,035	$1,058
Bonus	-	114	97	209
Commissions	946	1,047	918	1,013
Benefits	261	247	239	273
Other Sales costs	686	734	1,075	1,100
Total Sales & Marketing	**3,130**	**3,241**	**3,365**	**3,652**
TPS U.S ($CAD 000's)	**2015A**	**2016A**	**2017A**	**2018P**
Base Wages	$2,166	$1,967	$1,946	$1,799
Bonus	-	174	225	224
Commissions	1,476	1,199	1,164	1,334
Benefits	606	520	524	572
Other Sales costs	889	918	775	846
Total Sales & Marketing	**5,136**	**4,778**	**4,633**	**4,775**
TPS Sales & Marketing	**8,267**	**8,020**	**7,998**	**8,428**

TPS Samples Expense

Samples expense represents the largest controllable cost for TPS. TPS management provides samples to over 6,000 dealers and displays in Canada and 9,000 in the U.S TPS recovers a significant portion of samples costs from its customers.

On a standalone basis, TPS incurred $1.1M CAD and $2.6M CAD for samples in Canada and U.S respectively.

	2015A	2016A	2017A	2018P
Canada	$1,218	$1,218	$1,131	$1,131
U.S	2,145	2,145	2,585	2,844
Total Sample Expenses	**3,364**	**3,364**	**3,717**	**3,975**

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Financial Overview: Distribution Overheads

TPS Distribution Overheads

TPS incurred distribution overhead costs of $5.1M in FY2017. Distribution overhead costs represent the fixed costs for TPS supply chain network in North America.

Management made allocations for standalone TPS distribution costs by geography using activity based costing and contain the following items:

Wages: Distribution - reflects wages for employees at each of the 6 Canadian and 5 U.S dedicated distribution centers.

Wages: Call Centre - reflects wages for employees in customer service roles across each of the TPS distribution centers.

Rent - Rent paid for the 9 distribution centers and the 10 third party warehouses across the U.S and Canada. Refer to Section 04 for more detail of owned, leased and third party distribution centers.

Repairs & Maintenance - reflects repairs and maintenance expenses for distribution centers.

Property Tax & Insurance - reflects property tax & insurance expenses for distribution centers.

Other Facility Costs - Shipping, warehousing costs and other facility costs at the dedicated and third party distribution centers.

TPS Canada ($CAD 000's)	**2015A**	**2016A**	**2017A**	**2018P**
Wages - Distribution	$ 1,160	$ 1,124	$ 1,024	$ 1,095
Wages - Call Centre	216	214	172	178
Rent	916	968	1,135	1,154
Repairs & Maintenance	195	166	80	70
Property Tax & Insurance	235	292	256	272
Other Facility Costs	201	204	273	276
Total Distribution Overhead	**2,923**	**2,968**	**2,941**	**3,045**
TPS U.S ($CAD 000's)	**2015A**	**2016A**	**2017A**	**2018P**
Wages - Distribution	$ 1,036	$ 1,224	$ 1,197	$ 1,211
Wages - Call Centre	362	335	304	352
Rent	235	244	249	252
Repairs & Maintenance	118	110	110	113
Property Tax & Insurance	100	143	151	146
Other Facility Costs	124	137	135	140
Total Distribution Overhead	**1,975**	**2,192**	**2,146**	**2,213**
TPS Distribution Overhead	**4,898**	**5,160**	**5,087**	**5,259**

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Financial Overview: Administration and IT

TPS IT & Administration Costs

On a standalone basis, TPS division IT and Administration are used in equal proportions for the U.S and Canadian operations.

IT wages: Wages and benefits expenses paid for two fulltime IT employees.

IT supplies: Costs paid for IT supplies such as consulting services, hardware, software and networking charges.

Administration wages: Wages and benefits expenses for five employees supporting the finance function for each of TPS Canada and TPS U.S

Legal & Professional fees: Legal compliance fees and professional fees for audit and tax services.

HR costs: Fees incurred for talent acquisition. Although costs are incurred through TPS Canada, HR recruitment costs are applicable to U.S and Canada.

Office Supplies & Other: Expenses incurred for postage and delivery, office supplies, bank charges, subscriptions and other miscellaneous administrative supplies.

TPS Canada ($CAD 000's)	**2015A**	**2016A**	**2017A**	**2018P**
IT Wages	$ 17	$ 0	$ 92	$ 8
IT Supplies	128	132	184	120
Admin Wages	352	370	166	220
Legal & Professional Fees	36	42	60	47
HR Costs	-	14	27	24
Office Supplies & Other	297	246	246	205
Total IT & Admin	**830**	**805**	**776**	**623**
TPS U.S ($CAD 000's)	**2015A**	**2016A**	**2017A**	**2018P**
IT Wages	$ 263	$ 130	$ 130	$ 130
Admin Wages	379	379	379	379
Office Supplies & Other	671	410	411	423
Total IT & Admin	**1,313**	**919**	**920**	**932**
TPS IT & Admin	**2,143**	**1,724**	**1,696**	**1,555**

Section

07 Industry Outlook

Industry Outlook

- The flooring market is poised for continued global growth. Equipped with a wide-ranging portfolio of products, this market is among the most important building material sector. The substantial rise in the construction industry and the increasing trend of home improvement and renovation project activities is likely to boost this market substantially over the forthcoming years.
- The rising number of residential constructions in various emerging nations, the rise of residential condo construction in North America and the re-modelling activities in mature economies, especially those in North America and Europe, are also expected to accelerate the growth rate of this market in the near future.
- Carpets and rugs, wood, resilient, tiles, laminate, and stone are the key products available in the global flooring market. Tiles, among these, have been witnessing a greater demand than other products. With the rise in building and construction activities and increasing interest of people in interior decoration, this trend is likely to remain so over the forthcoming years. Carpets and rugs are also expected to register a healthy rise in their demand in the near future due to their extensive usage in households.
- In 2016, the flooring products market was valued at USD$248B, expanding at a CAGR of 6.40% between 2017 and 2025, the opportunity in this market is anticipated to rise to USD$429B by the end of 2025.
- The U.S flooring market is the biggest worldwide, worth USD$23B in 2015. Over the past 20 years the market has grown by approximately 2.4% per annum.

Sources: UBS, Transparency market research

U.S$ 248B

2016 total market value: Flooring

6.4%

Estimated industry CAGR from 2017 to 2025

Market share by Flooring Product – U.S

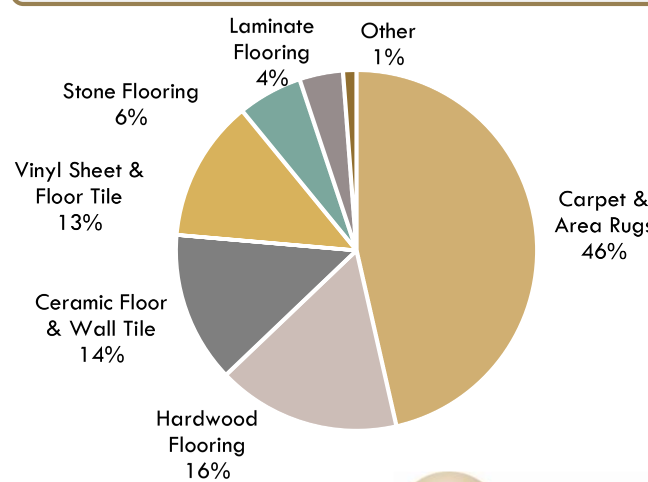


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Exhibit B

Project Champion Teaser Final

Rosa Falesy

Rosa Maria Ferreira Gomes Falesy, a Commissioner, etc.,
Province of Ontario, for Deloitte LLP, Chartered
Accountants, and Deloitte Restructuring Inc.,
Trustee in Bankruptcy. Expires December 11, 2018.

Acquisition Opportunity – A North American Flooring Products Distributor

COMPANY OVERVIEW

Headquartered in North America with operations in the US and Canada, the Company is a leading distributor of flooring products. With over half a century of industry standing, the Company has grown to become synonymous with high-quality and on-trend products.

KEY INVESTMENT HIGHLIGHTS

Strong sales force with a North American distribution infrastructure	• The Company has a well-trained, loyal and motivated North American sales force. • The Company benefits from multiple strategically located distribution centres in the U.S. and Canada ensuring for optimal delivery time.
Loyal and recurring customer relationships	• The Company has a loyal and recurring customer base, encompassing over 10,000 customers, including main street commercial and residential sales customers, property managers and home builders.
Entrenched supplier relationships and "On Trend" premium product offering	• The Company has a strong portfolio of on-trend, premium flooring products marketed under the suppliers' and their own branded names. • The Company has entrenched and meaningful relationships with key North American and international suppliers. • Products offered include stone polymer composite tiles, luxury vinyl tiles, laminate, hardwood, under-pads and carpet-tile flooring.
Growth potential from international markets	• In addition to the Company's core North American customers, it also exports products to select foreign markets, which represent an actionable and lucrative growth opportunity, if exploited further.
Strong financial performance	• The Company has continued to demonstrate strong profitability, consistently achieving gross margins of over 22%. Since FY2015, the Company has realized healthy normalized EBITDA growth, representing a CAGR of 17.4% between FY2015 to FY2017.

FINANCIAL HIGHLIGHTS

(in thousands $USD)	FY2015A	FY2016A	FY2017A	FY2018E
Sales	$89,724	$97,232	$91,049	$100,167
Gross Margin (%)	22.5%	25.4%	26.5%	27.4%
Adjusted EBITDA Margin (%)	6.7%	11.0%	10.8%	12.7%

PROCESS

The Company has engaged Deloitte Corporate Finance Inc. ("DCF") to approach a select group of qualified parties. Upon execution and receipt of a confidentiality agreement, DCF will deliver a Confidential Information Memorandum ("CIM") to interested parties, which will provide additional information on the Company and the opportunity. Details of the process and a corresponding timetable are included in the CIM. All inquiries, expressions of interest or offers should be directed to:

Susan Mingie
Senior Managing Director
smingie@deloitte.ca

Ovais Ghafur
Managing Director
oghafur@deloitte.ca

Kristian Rochon
Vice President
krochon@deloitte.ca

Oni Prisecaru
Associate
onprisecaru@deloitte.ca

Deloitte Corporate Finance Inc.
8 Adelaide Street West, Suite 200, Toronto ON, M5H 0A9 Canada
416-601-6150

CONFIDENTIAL EXHIBIT "C"

(filed separately)

Exhibit D

Project Champion CIM Final

Rosa Falesy

Rosa Maria Ferreira Gomes Falesy, a Commissioner, etc.,
Province of Ontario, for Deloitte LLP, Chartered
Accountants, and Deloitte Restructuring Inc.,
Trustee in Bankruptcy. Expires December 11, 2018.

Kraus Group – Carpet Division

Confidential Information Memorandum

July 2018

Strictly Private & Confidential

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Disclaimer

This Confidential Information Memorandum (the “Memorandum”) is being distributed to a limited number of parties (collectively referred to as “Potential Purchasers” and individually as a “Potential Purchasers”) that have expressed an interest in acquiring the assets of the Kraus Carpet Division (“KCD” or the “Company ”) and who have entered into a confidentiality agreement (the “Confidentiality Agreement”). This Memorandum was prepared by management of the Company (“management”) with the assistance of Deloitte Corporate Finance Inc. (“DCF” or the “Marketing Agent”), based on information provided by the Company without independent verification thereof by DCF. The sole purpose of this Memorandum is to assist the Potential Purchasers in deciding whether to proceed with a further investigation and possible acquisition of the assets of the Company. This Memorandum does not purport to be all-inclusive nor to contain all the information that a Potential Purchaser may require in investigating the Company. This Memorandum shall remain the property of the Company and neither the Memorandum nor the information contained herein may be copied, reproduced, disclosed or distributed in whole or in part at any time without the prior written consent of the Company or as otherwise contemplated in the Confidentiality Agreement. This Memorandum is being delivered to Potential Purchasers upon the express understanding that such Potential Purchasers will use it only for the purpose set forth above. By accepting delivery of this Memorandum, the Potential Purchaser agrees that it will hold this Memorandum and all information made available to it in connection with its investigation of the Company strictly confidential in accordance with the terms of the Confidentiality Agreement previously executed by it. Upon request, the Potential Purchaser will promptly return to the Company all material received from the Company, DCF or any of their respective shareholders, directors, officers, employees, agents, advisors or representatives (collectively, their “Representatives”), including this Memorandum and all compilations, analyses, financial models and other reports derived therefrom, without retaining any copies thereof.

No representation or warranty, express or implied, is made by the Company, DCF or their respective Representatives as to the accuracy or completeness of the information contained in this Memorandum or otherwise furnished to a Potential Purchaser in connection with any investigation of the Company. The Company, DCF and their respective Representatives expressly disclaim any and all liability which may be based on such information, errors therein or omissions therefrom. A Potential Purchaser shall be entitled to rely solely on the representations and warranties made to it in writing in any definitive agreements when and if any are executed in connection with its acquisition of some or all of the assets of the Company. Each Potential Purchaser of this Memorandum should perform its own independent investigation and analysis of the transaction, the Company and its business, assets and liabilities. This Memorandum and the information that it contains are not a substitute for the Potential Purchaser’s independent evaluation and analysis. Unless indicated, the financial information contained in this Memorandum is un-audited and is denominated in Canadian dollars. The Company’s fiscal year end is December 31. The anticipated financial information contained herein was prepared by the management of the Company based on information available at the time the Memorandum was prepared, and there are no representations, warranties or other assurances that any of the projections set forth herein will be realized. None of the contents of this Memorandum, any enclosures herewith, or any documents related hereto should be constituted as legal or investment advice. Potential Purchasers should consult their own counsel, accountants and business advisors as to the legal, tax and related matters concerning an acquisition of some or all of the assets of the Company.

This Memorandum shall not be deemed an indication of the condition (financial or otherwise) of the Company, nor shall it constitute an indication that there has been any change in the business or affairs of the Company since the date hereof. All contacts for additional due diligence by Potential Purchasers must be arranged by and through DCF. Potential Purchasers should not contact suppliers, customers, employees or Representatives of the Company under any circumstances. DCF will co-ordinate all communication, inquiries and/or requests for additional information on behalf of Potential Purchasers.

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Transaction Process

- The Company would like to accord Potential Purchasers fair and equal treatment in undertaking their investigations and submissions of Expressions of Interest ("EOI"). The Company would also like to move expeditiously to conclude the contemplated transaction. As such, DCF will be managing the contemplated transaction in accordance with the Group's objectives and the following timeline:

Transaction process	Timeline
Circulation of Confidential Information Memorandum	July 2018
Submissions of EOI	July 23, 2018
Review of due diligence materials, data room access and management presentations	July 25, 2018
Submissions of Letter of Intent ("LOI") and marked-up vendor supplied LOI	August 6, 2018
Selection of purchaser and negotiation of definitive agreements	August 8, 2018
Target closing date	August 31, 2018

- This Confidential Information Memorandum document has been distributed to qualified Potential Purchasers as determined by the Company who have entered into a Confidentiality Agreement with the Company. Potential Purchasers will be asked to submit an EOI for the specified assets of the Company by no later than July 23, 2018. DCF anticipates selecting a small number of Potential Purchasers from the EOIs received to participate in a more formal process involving comprehensive due diligence and presentations.
- The following DCF contacts will only receive EOIs until 5:00 pm (EST) July 23, 2018.

Susan Mingie
Senior Managing Director
519-650-7701
smingie@deloitte.ca

Ovais Ghafur
Managing Director
416-601-6602
oghafur@deloitte.ca

Kristian Rochon
Vice President
416-643-8045
krochon@deloitte.ca

Oni Prisecaru
Associate
519-650-7630
onprisecaru@deloitte.ca

Michael Fiore
Associate
416-874-4266
micfiore@deloitte.ca

Deloitte Corporate Finance Inc.
8 Adelaide Street, Suite 200
Bay Adelaide Centre – East Tower
Toronto, ON, Canada
M5H 0A9

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Section

01

Executive Summary

Executive Summary

Transaction Overview

- In 2012, Hilco Capital ("Hilco" or the "Shareholders"), a private equity firm based in the UK, with global operations, acquired the Kraus Group of Companies ("Kraus" or the "Group").
- Headquartered in Waterloo, Ontario, Canada, Kraus is a manufacturer and distributor of flooring products with operations in Canada and the U.S. With over half a century of industry standing, Kraus has grown to become synonymous with high-quality and on-trend products.
- The Group has two distinct operations: a soft surface or broadloom / carpet manufacturing division known as the Kraus Carpet Division ("KCD" or the "Company") and a flooring products distribution or Traded Products Sales division ("TPS"). The TPS division, was marketed under a separate process.
- The Shareholders are now contemplating the divestiture of all or select assets of KCD.
- EOI's for KCD will be assessed in the context of: (i) Valuation, (ii) Transaction structure, and (iii) Ability to close on a timely basis.

Company Overview

- KCD is a semi-vertically integrated manufacturer of residential and commercial broadloom / carpets made from olefin-based polypropylene ("PP"), polyamide-based nylon ("PA") and polyester-based polyethylene terephthalate ("PET") yarns. The Company extrudes and spins its own PP and PA yarns and procures PET yarns from third-parties for the underlying carpet manufacturing processes. KCD also purchases PP and PA yarns from third-party yarn producers to supplement in-house production, as necessary. KCD sells it carpets through a network of carpet dealers and big-box stores across North America.
- In 2017, management commissioned its sales, marketing and finance group to identify KCD's most marketable carpet SKUs based on in-trend product styles and designs which were supported by high sales volumes and profitability. As a result of this exercise, 74 Product Styles in a range of colors, approximating 1,020 SKUs were identified. For the purposes of this document, the manufacturing and sales of these sought after 1,020 SKUs are referred to as the streamlined business of KCD (the "Streamlined Business"). The Streamlined Business comprises of a mix of PP, PA, and PET based carpet for the residential and commercial markets and sold through carpet dealers and big-box stores across North America.
- For the fiscal year ended December 31, 2017 ("FY2017"), KCD achieved sales of C$98.1 million. Of these sales, approximately C$84.1 million (or approximately 86%) were derived from the sales of the Streamlined Business.

Executive Summary

Investment Opportunity Overview

- The investment opportunity (the "Opportunity") being offered to potential purchasers includes the acquisition of customer relationships, the current order book, and all or select raw materials, finished goods inventory and manufacturing equipment associated with the Streamlined Business.
- A detailed review by management has confirmed that the sales associated with the Streamlined Business are transferable, whilst maintaining a coherent, value enhancing, on-trend product offering to the existing customer base.
- Significant analysis by KCD's management, technical support group and seasoned industry consultants has been undertaken to ensure that the Streamlined Business and the volumes associated with it, which equated to approximately 6.9 million square yards of carpet production in FY2017, is readily transferable. This analysis includes identification of the equipment required to manufacture the Streamlined Business, assistance in relocating and commissioning the equipment, an option to hire very capable and seasoned technical staff, and the project management associated with such large equipment moves and ensuring sufficient inventory is on hand to service customers until the equipment is commissioned integrated and operational at the new site.
- Management believes that the Opportunity associated with the Streamlined Business would be of interest to the following parties:
  - **An established carpet manufacturer with available capacity seeking asset utilization improvements and growth through additional SKUs:** Opportunity to continue extruding and spinning the PP and PA yarns or leverage the in-house master-batching expertise to fully outsource the PP, PA and PET yarn production, opt out of acquiring carpet production equipment, acquire the associated raw materials and inventory, and hire the required operational and technical staff;
  - **An established carpet manufacturer with capacity constraints but interested in growth through additional SKUs:** could opt to continue extruding and spinning the PP and PA yarns or leverage the in-house master-batching expertise to outsource the PP, PA and PET yarn production, acquire the required carpet production equipment, acquire the associated raw materials and inventory, and hire the required operational and technical staff;
  - **A PET yarn manufacturer seeking to secure approximately 3.7 million kilograms or just over C$20.6 million of PET yarn sales (based on FY2017 production), and vertically integrating its business with carpet manufacturing capabilities and thereby further benefit from the incremental carpet manufacturing margin:** Opportunity to acquire the associated equipment, raw materials and inventory.

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Executive Summary: Key Investment Highlights

1	***A highly profitable and transferable SKU base with proven sales***	• KCD has a proven track record of successfully bringing high-quality and on-trend new carpet styles to market. • The Streamlined Business comprising approximately 1,020 SKUs generated sales of C$84.1 million, approximately 86% of the existing KCD sales, and C$22.2 million of going-in-margin (26.5% margin), which can be further improved through potential synergies under a new owner. • 35% of the Product Styles have been launched in the last 18 months, and accounted for approximately C$7.2M of the Streamlined Business sales in FY2017.
2	***Large and loyal North American customer base***	• The Company has a loyal and recurring customer base, encompassing five years of customer data with 5,800 customers for the Streamlined Business, which include commercial and residential carpet dealers and big-box stores. • The Company's current broadloom order book sits at approximately C$5 million.
3	***Proven track record in yarn matching and complex project management***	• Proven methodology in rapidly matching KCD Product Styles (both in color and texture) with yarn manufactured by third-parties. Of the 74 Product Styles within the Streamlined KCD business, 20 have been manufactured at various times, using yarns from different suppliers during their product life cycle, meeting internal quality control tests with no adverse customer reaction. The KCD technical team has also developed a methodology to reverse engineer yarn systems for third-party yarn producers and possess strong expertise in master batching systems. • Proven project management expertise in delivering defined manufacturing projects. The KCD technical team has already developed a methodology to outsource yarn production associated with the Streamlined Business to third-party manufacturers.
4	***Relevant assets available to facilitate transfer***	• The KCD technical and project management team has worked out a clear plan to identify the optimal configuration of manufacturing equipment unique to the Streamlined SKUs. The Shareholders are flexible in terms of allowing the potential purchaser to acquire select equipment in addition to the raw materials and finished goods inventory.

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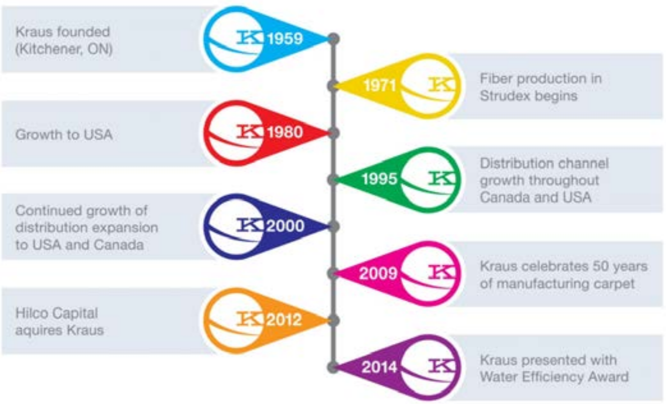
Section

02 Kraus Overview

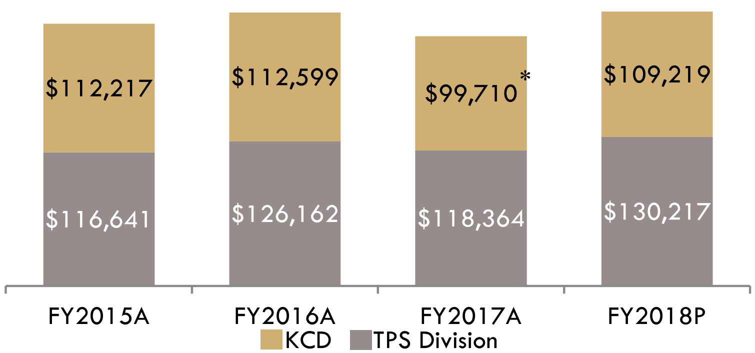
Overview of Kraus

- Founded in 1959, Kraus has maintained a long history of delivering high-quality flooring products.
- The Group operates out of 21 strategically located distribution centers across Canada and the U.S. This overall distribution arrangement, ensures that Kraus can cover a wide range of markets and geographies.
- The Group has two distinct divisions: KCD and TPS. For clarity, this CIM provides information on KCD only. The TPS division does not constitute part of this process as it was marketed under a separate process.
- The Group generated C$218M in revenues in FY2017, with KCD contributing approximately C$99.7 million and TPS accounting for the remaining C$118M. The Streamlined Business for FY2018 is expected to be higher than the 86% it generated in FY2017.

"You can trust Kraus to provide you with stylish and classic flooring solutions that will meet all of your needs, priced fairly and brought to you with exceptional customer service. At Kraus, we care about your floor."
– Kraus' mission statement



Kraus Sales (000's $CAD)



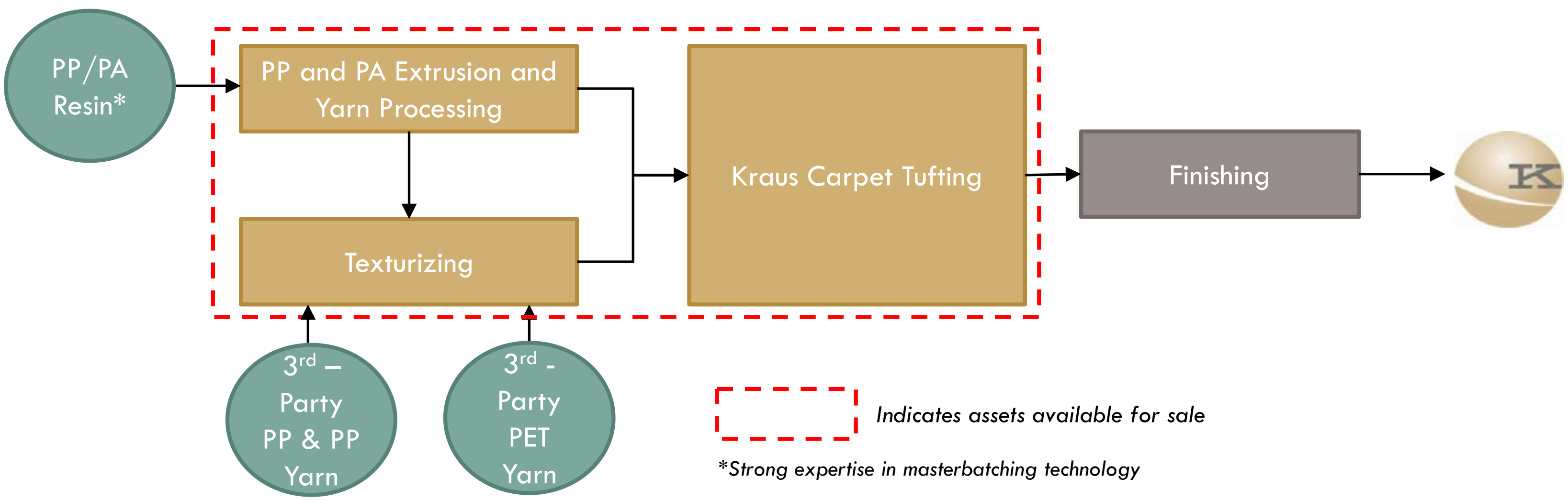
*Note: the KCD figures referenced above represent sales for the total business including sales of third-party manufactured carpet.

Section

03 Opportunity Overview

Opportunity Overview: Carpet Manufacturing Process

- KCD is a semi-vertically integrated manufacturer of residential and commercial broadloom / carpets made from PP, PA and PET yarns. The Company extrudes and spins its own PP and PA yarns and procures PET yarns from third-parties for the underlying carpet manufacturing processes. KCD sells it carpets through a network of carpet dealers and big-box stores across North America.
- A simplified schematic of the KCD carpet manufacturing process and assets for sale are highlighted below:

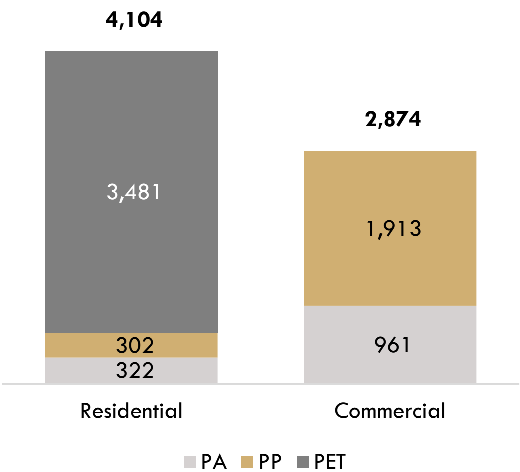


- An opportunity exists for a purchaser to acquire the customer relationships associated with the 1,020 SKUs of the Streamlined Business, the underlying manufacturing equipment and inventory (raw material and finished goods) and in turn benefit from the associated gross profit.
- The Company will assist in the successful transition of assets and inventory, if required.
- KDC also purchases third party PA & PP yarns to supplement and substitute internally produced yarns as necessary.

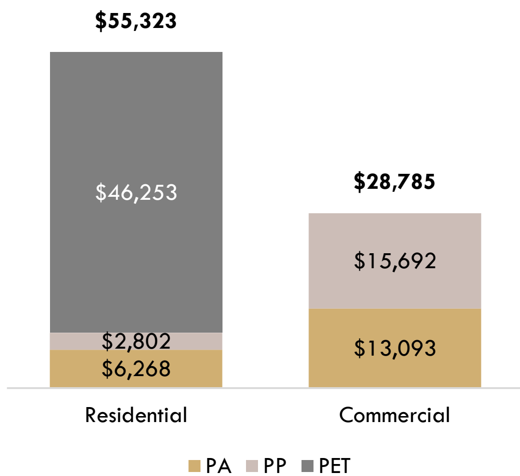
Opportunity Overview: SKU Selection

- The Streamlined Business (which utilizes yarn systems that can be, or have been outsourced) comprises 1,020 SKUs which are based on 74 Product Styles in different colors. These SKUs represented approximately 86% of the FY2017 sales and generated and approximately C$22.2 million of going-in-margin (or 26.5% margin).
- Based on the purchaser's preference, all or part of the 1,020 SKUs that would best complement its existing business or represent a new market expansion strategy can be acquired.
- An overview of the 1,020 SKUs in FY2017 by end-market and yarn resin type is summarized below:

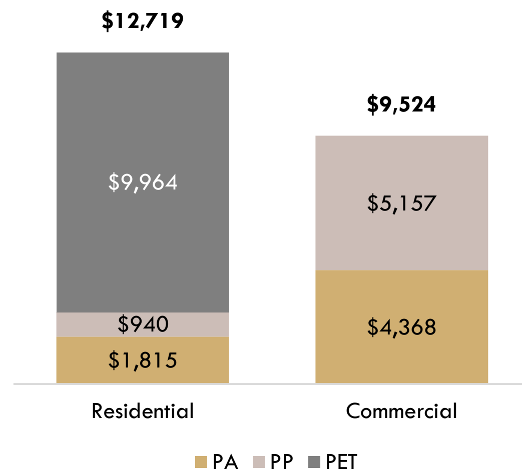
2017 Square Yards Sold (Thousands)



2017 Sales (In Thousands of C$)



2017 Going-in-Margin* (In Thousands of C$)



*Note: Going-in-margin is sales less standard costs less promotions/rebates. This differs from gross margin as it excludes manufacturing variances, claims, inventory write-downs, prompt payment discounts, and freight costs. For FY2017, the going-in-margin for the KCD total business was 26.5%, and the gross margin was approximately 18.6%.

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Opportunity Overview: Strategic and Flexible Offering

- By selecting specific SKUs and assets that are of prime interest, a purchaser can maximize the value of the acquired assets by seamlessly incorporating them into their growth strategy. Potential synergies and strategic incentives are as follows:

For an acquirer seeking capacity, acquire or expand high margin PP and PA yarn manufacturing and carpet manufacturing capabilities.

For an acquirer with excess capacity, acquire or expand sales lines through the acquisition of the Streamlined Business and leverage strong customer relationships

Vertical integration by a PET/PA yarn manufacturer to acquire equipment to secure market share of their PET/PA yarns and achieve greater margins through PET carpet manufacturing

Expansion of market share through the delivery of high quality, recently launched and on-trend Streamlined Business SKUs.

Geographic expansion into the US and Canadian market including access to over 5,800 customers in North America.

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Opportunity Overview: Equipment Sale Options

- The table below summarizes the assets available for sale, at book value, based on the purchaser's interest:

Process	Key Asset Group	Qty	Key Core Assets For relocation	Other Assets Available As required	Notes
Yarn Processing	**Varichrome Facility**	1	Varichrome Laser printing unit	Associated infrastructure items including load creels	
	Secondary Processing	7 4 2	Air Twist units Superba Heat Set units Twist Tack units	8 x Volkman twister units Common services infrastructure equipment – compressors etc.	Currently located in Strudex 2 processing facility
Carpet Manufacturing	**Carpet Tufting**	1 1 2 2 3 7	LCL Pattern Loop Pattern Graphic Scroll Loop Precision Cut Pile Pattern Graphic Loop	Cut pile machines (4) Associated beam racks and creeling systems. Common services infrastructure equipment - compressors etc.	Core assets associated with higher margin tufted products
	Winding & Beaming	8	Winding & Beaming units	Associated infrastructure including beam racks, beams, rewind units etc.	Recent investment in storage racking infrastructure
	Piece Dye Becks	2 3	Atmospheric Becks Pressure Jet Becks	Associated infrastructure and mobile processing equipment, drying units	Gaston County Pressure Becks

These key core production assets are capable of being quickly and cost effectively relocated to the purchaser's facility. Existing coating and finishing assets are also available if required.

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Opportunity Overview: KCD Carpet Displays

- KCD uses a number of different display mechanics. The Kraus brand name on the display mechanic is readily changeable.
- The Streamlined Business continues to provide a coherent and complete merchandising package, while leaving some space for further product development. Management estimates that the installation base of the Company's portfolio of active / current displays pertaining to the Streamlined Business that are situated at carpet dealers and big-box stores have a reinstatement value of C$10 million.
- A summary of the display mechanics are summarized below:

Residential Displays

	Number of Available Slots		Quantity		
	Existing	Streamlined	Canada	USA	Total
Ranges	53	46			
Wing Card	36	35	816	1675	**2491**
Deck Board Tree	33	28	34	192	**226**
Hand Card Caddy	26	24	264	1774	**2038**
Platinum	48	48		150	**150**
			1114	**3791**	**4905**

Commercial Displays

	Number of Available Slots		Quantity		
	Existing	Streamlined	Canada	USA	Total
Ranges	46	40			
Wing Card	36	30	379	1967	**2346**
Hand Card Caddy	20	20	264	1774	**2038**
			643	**3741**	**4384**

Opportunity Overview: Transition Considerations

- Substantial relocation analysis and planning work has already been undertaken on a range of potential sale options to ensure that key transition processes and risk areas will be mitigated and delivered on time and with minimal market supply risk, as summarized below:

Key Transition Process	Kraus Delivery Capability
Yarn Transition and Matching	• **Extensive in house master-batching expertise** dedicated to broadloom manufacturing with a library of over 4000 pre-formulated colours with 400kg/hr and pilot plant production for PP and PA master batches. • **Proven experience in rapidly reverse engineering** and matching individual PP and PA yarn systems from samples of finished broadloom carpets. • **Flexible External third- party yarn supply options** - Proven ability to quickly switch/re-source between external third party yarn suppliers for maximum commercial and technical advantage.

Plant and Asset Relocation	• **Initial relocation assessment and costing completed** for anticipated key assets and relocation methodology defined taking account of:
	  • **Package relocation** - assets packages defined for relocation to shorten critical path of project
	  • **Use of duplicated key assets** to de-risk relocation & reduces transition stock build

Project Management & Working capital optimisation	• **Experienced in house engineering team** to support relocation and recommissioning; including mechanical, electrical, chemical, industrial, and process engineering as well as project management. • **Materials and demand planning -** expertise integrated into to minimize transition stock. • **Specialist and experienced contractors available** to support rapid relocation.
Post relocation Process improvement	• **Process improvement and optimisation** – extensive experience of broadloom and yarn manufacturing improvement implementation to generate industry leading yield performance and operational performance from critical production assets

KCD has proven management & engineering processes to deliver successful low risk relocation

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Section

04

KCD Sales by Sector

KCD Product Overview: Commercial Carpets

Product Description

KCD's in-house design experts have created a collection of products ideal for most commercial environments. Ongoing investment in new product innovation has ensured that these ranges remain current, although the commercial product lifecycle is typically longer. 21 new carpet commercial broadloom products have been launched in the last six years, of which 18 are part of the Streamlined Business. (krausflooring.com/commercial-carpet/)

Key Features

ZipperLock® Technology – This technology allows loop carpets to be tufted with an interlocking stitch to prevent unraveling.

BioFresh™– BioFresh is an anti-microbial treatment that protects against bacteria and fungi.

Stain Proof – No Exceptions™ – Perfected the balance between dye technology and fiber construction, allowing for most spills to be easily removed.

Total Commercial FY2017 Performance

	Volume (Sq.Yd.)	Sales ($)	GIM ($)	GIM%
Canada	1,109,565	10,028,819	2,815,550	28.1%
USA	2,528,276	19,517,231	6,320,552	32.4%
Total*	**3,637,841**	**35,401,219**	**11,032,267**	**31.2%**

Streamlined Commercial 2017 Performance

	Volume (Sq.Yd.)	Sales ($)	GIM ($)	GIM%
Canada	758,548	7,569,006	2,385,895	31.5%
USA	2,115,302	16,320,052	5,491,076	33.6%
Total*	**2,873,850**	**28,785,074**	**9,5491,076**	**33.1%**

**USD converted to CAD at a rate of 1.30*

Note: Going-in-margin is sales less standard costs less promotions/rebates. This differs from gross margin as it excludes manufacturing variances, claims, inventory write-downs, prompt payment discounts, and freight costs.

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KCD Product Overview: Residential Carpets

Product Description

The in house product design team and masterbatch library ensures that Kraus residential carpet products remain on trend. 44 new residential carpet ranges have been launched in the last six years, of which 32 are part of the Streamlined Business.
(krausflooring.com/residential-carpet/)

Key Features

Stain Proof – No Exceptions™ – Perfecting the balance between dye technology and fiber construction, most spills can be easily removed.

ZipperLock® Technology – This technology allows our loop carpets to be tufted with an interlocking stitch to prevent unravelling.

Repel-iT™ – iT "immersion technology" is an advanced soil resistance formula that provides lasting protection against dirt and soiling.

Total Residential FY2017 Performance

	Volume (Sq.Yd.)	Sales ($)	GIM ($)	GIM%
Canada	2,375,629	30,595,279	6,740,232	22.0%
USA	2,220,850	23,461,575	5,455,671	23.3%
Total*	**4,596,479**	**61,095,327**	**13,832,604**	**22.6%**

Streamlined Residential 2017 Performance

	Volume (Sq.Yd.)	Sales ($)	GIM ($)	GIM%
Canada	2,086,640	27,241,478	6,179,719	22.7%
USA	2,017,482	21,601,164	5,030,266	23.3%
Total*	**4,104,123**	**55,322,991**	**12,719,066**	**23.0%**

**USD converted to CAD at a rate of 1.30*

Note: Going-in-margin is sales less standard costs less promotions/rebates. This differs from gross margin as it excludes manufacturing variances, claims, inventory write-downs, prompt payment discounts, and freight costs.

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Section

05

Select KCD Balance Sheet Accounts

KCD Valuation Guideline

Inventory

Company	Item	Net Book Value May 31, 2018
Strudex Fibres	Raw Materials	3,600,367
Kraus Carpet	Raw Materials	5,215,991
Kraus Carpet	WIP- Greige	717,926
KCD Canada	Finished Goods - Carpet	11,488,194
KCD USA	Finished Goods - Carpet	4,537,082
Total Inventory		**$25,559,560**

Goodwill Considerations

Item/Description

- The Company's current broadloom order book sits at approximately C$5 million.
- Management estimates that the installation base of the Company's portfolio of active / current displays pertaining to the Streamlined Business that are situated at carpet dealers and big-box stores have a reinstatement value of C$10 million.
- Five years of customer order history across 5,800 customers
- Strong masterbatching know-how
- Project Management support related to equipment relocation

Machinery & Equipment *

Equipment type	Third Party Appraisal Dec 31, 2017
Tower #1	129,700
Tower #2	463,850
Strudex	26,550
Beaming	166,050
Tufting	2,203,250
Dyeing	898,800
Finishing and Storage	256,875
Strudex II	856,250
Warehouse Equipment	102,280
Maintenance	28,950
Plant Utilities	198,550
Throughout Plant	65,500
Rolling Stock	40,000
Total Machinery & Equipment	**$5,436,605**

Note:

* Management has third party valuations of Machinery & Equipment conducted as at December 31, 2017.

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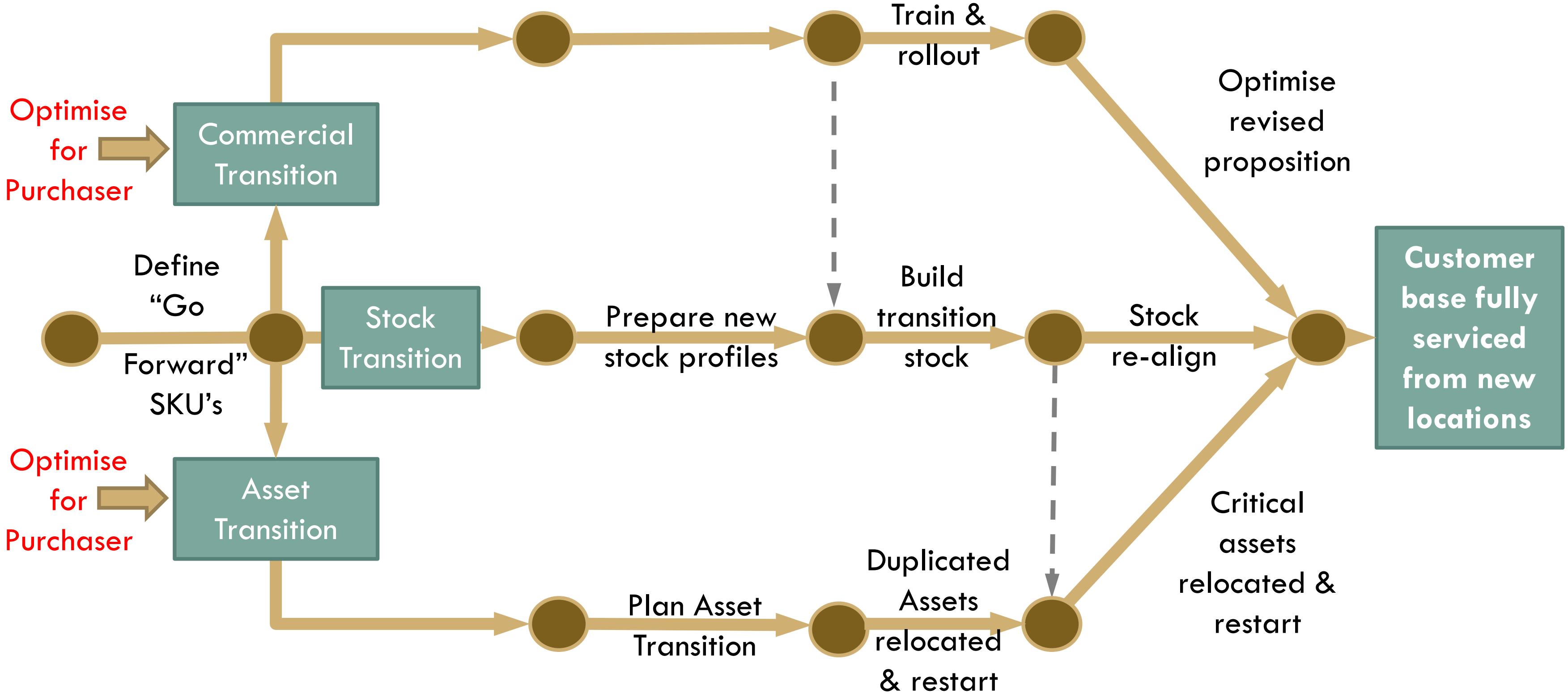
Section

06

Appendix: Business Transition Considerations

Transition Considerations: Pre-Move Considerations



KCD is ready to assist in the transition of assets and production to the purchaser. The transition project will require delivery on three key operational work streams, as defined above. This can be further optimised for the purchaser's requirements.

Transition Considerations: Technical Resources

- KCD has a comprehensive yarn and broadloom technical team to assist in achieving low risk transfer and successful commissioning of the go-forward business. The purchaser has the option to hire select and competent staff, summarized below:

Broadloom – Key delivery and Innovation Factor	Experience Base
Yarn extrusion & processing	• **Dedicated yarn manufacturing technologist** with 30 years PA and PP extrusion and post extrusion processing experience • In house master batch development and production team
Yarn product design for broadloom application	• **Dedicated yarn product specialist** with more than 30 years old yarn product design specifically for broadloom applications • Integrated with broadloom new product design resources
Tufted product manufacture and coating processes	• **Highly experienced tufted product leadership** and manufacturing team combined with exceptional process improvement focus. • Proven capability in leading cost reduction and quality improvement processes to deliver significant financial benefits and industry leading quality performance
Piece dye process management	• **Dedicated dye house technologist** with international experience of fabric and yarn dye operations process control and optimisation
Engineering and project management	• **Mechanical, Electrical, Chemical, and Industrial engineering support** teams • Engineering project management and proven process improvement experience backed up by strong creative engineering capability
Broadloom new product design and development	• **Dedicated and industry respected broadloom carpet design** specialist with over 40 years experience in industry.

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CONFIDENTIAL EXHIBIT "E"

(filed separately)

Exhibit F

Project Champion Teaser Final

Rosa Falesy

Rosa Maria Ferreira Gomes Falesy, a Commissioner, etc.,
Province of Ontario, for Deloitte LLP, Chartered
Accountants, and Deloitte Restructuring Inc.,
Trustee in Bankruptcy. Expires December 11, 2018.

Acquisition Opportunity – Assets of a North American Flooring Manufacturer

COMPANY OVERVIEW

Headquartered in North America with operations in the US and Canada, the business is a semi-integrated leading manufacturer of flooring products (the "Business"). With over half a century of industry standing, the Business has grown to become synonymous with high-quality and on-trend products.

The investment opportunity being offered to potential purchasers includes the transfer of customer relationships; the current order book; all or select raw materials, work-in-process, and finished goods inventory; and manufacturing equipment associated with the high-volume and in-trend SKUs of the Business (the "Streamlined Business").

KEY INVESTMENT HIGHLIGHTS

Transferrable SKU base with proven sales record	• The business has a proven track record in successfully bringing high-quality and on-trend new flooring styles to market. • The Streamlined Business includes manufacturing of 74 product styles comprising of 1,020 SKUs. These SKUs delivered approximately 86% of the FY2017 manufactured sales of C$98.1 million. • 35% of these 1,020 SKUs have been launched in the last 18 months.
Large and loyal North American customer base	• The Business has a loyal and recurring customer base, encompassing five years of customer data with 5,800 customers, including commercial and residential flooring dealers and big-box stores. • The Company's current order book sits at approximately C$5 million. • Management estimates that the installation base of the Business's portfolio of active/current displays that are situated at dealers and big-box stores have a reinstatement value of approximately C$10 million.
Proven track record in input matching and complex project management	• Proven methodology in rapidly matching styles (both in color and texture) with different systems. Of the 74 product styles within the Streamlined Business, 20 of those have been manufactured using different systems from third-parties at different stages of their product life cycle, with no variation in end product quality or appearance. The technical team have also developed a methodology to reverse engineer systems for third-party producers. • Proven project management expertise, in successfully delivering defined manufacturing projects. The technical team has already developed a methodology to transfer the Streamlined Business to interested parties.
Relevant assets available to facilitate a transfer	• The Company's technical and project management team has worked out a clear plan to identify the optimal configuration of manufacturing equipment unique to the Streamlined Business. To that effect, the Shareholders are flexible in terms of allowing the potential purchaser to acquire selected equipment.

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars)	2015A	2016A	2017A	2018P
Sales	$112,217	$112,599	$99,710	$109,219

PROCESS

The Business has engaged Deloitte Corporate Finance Inc. ("DCF") to approach a select group of qualified parties. Upon execution and receipt of a confidentiality agreement, DCF will deliver a Confidential Information Memorandum ("CIM") to interested parties, which will provide additional information on the Company and the opportunity. Details of the process and a corresponding timetable are included in the CIM. All inquiries, expressions of interest or offers should be directed to:

Susan Mingie	**Ovais Ghafur**	**Kristian Rochon**	**Oni Prisecaru**	**Michael Fiore**
Senior Managing Director	Managing Director	Vice President	Associate	Associate
smingie@deloitte.ca	oghafur@deloitte.ca	krochon@deloitte.ca	onprisecaru@deloitte.ca	micfiore@deloitte.ca

Deloitte Corporate Finance Inc.
8 Adelaide Street West, Suite 200, Toronto ON, M5H 0A9 Canada
416-601-6150

CONFIDENTIAL APPENDIX "D"

(filed separately)

APPENDIX E

Kraus Group Consolidated Cash Flow Forecast Amounts in CAD ('000's) Weekly Forecast (ending on Friday)	14-Sep-18	21-Sep-18	28-Sep-18	5-Oct-18	12-Oct-18	19-Oct-18	26-Oct-18	2-Nov-18	9-Nov-18	16-Nov-18	23-Nov-18	30-Nov-18	7-Dec-18	Total
Cash Flow from Operations														
Receipts	3,493	5,645	3,971	1,950	1,953	1,793	2,754	1,619	1,618	1,495	1,192	1,696	925	30,104
Disbursements:														
Inventory Disbursements	(2,345)	(2,171)	(4,291)	-	-	-	-	(395)	-	-	-	-	-	(9,203)
Employee Related Expenses	(926)	(793)	(497)	(828)	(336)	(115)	(43)	(49)	(43)	(49)	(43)	(49)	(43)	(3,814)
Overhead	(132)	(202)	(130)	(158)	(23)	-	(23)	(158)	(23)	-	(23)	-	(181)	(1,054)
Net Operating Cash Flow from Operations	**89**	**2,480**	**(947)**	**964**	**1,593**	**1,679**	**2,688**	**1,016**	**1,552**	**1,446**	**1,126**	**1,647**	**700**	**16,033**
Restructuring Costs	(7)	(2)	(6)	(1,002)	(27)	(32)	(27)	(31)	(27)	(32)	(27)	(31)	(27)	(1,278)
Interest & Forbearance Fees	(41)	(51)	(52)	(29)	(25)	(22)	(19)	(14)	(13)	(13)	(13)	(13)	-	(304)
Net Cash Flow before the TPS Business Sale	**41**	**2,427**	**(1,005)**	**(67)**	**1,542**	**1,624**	**2,642**	**971**	**1,512**	**1,401**	**1,086**	**1,603**	**673**	**14,451**

Notes

1) The Cash Flow Statement is presented on a weekly basis during the Cash Flow Period and represents the best estimate of Management of the projected cash flow during the Cash Flow Period.

2) Forecast amounts denominated in U.S. dollars are converted to Canadian dollars at a rate of CAD 1.3081:1 USD.

3) The following key assumptions are incorporated into the Cash Flow Statement:

a) This Cash Flow Statement has been compiled using Management's internal entity by entity Cash Flow Reports which have been consistently used and fine-tuned over the past 18 months.

b) The sale of the TPS Business is assumed to close during the week ending October 5, 2018 and will result in the Purchaser acquiring the net working capital of the TPS Business for its net book value along with the property located in Dalton, USA. The TPS business is forecast to operate as normal until October 1, 2018 when their operations will be removed from the Cash Flow Statement.

c) The Broadloom Manufacturing Business is assumed to cease operations as of September 7, 2018. Employee wages will be paid in full up until September 7, 2018 and all inventory purchases will cease as of the filing date. Certain employee related and overhead expenses will continue post filing.

4) Forecast Receipts have been modelled based on historical sales and collection averages and assume the cessation of all sales from the TPS Business after October 1, 2018, whilst the residual Carpet Inventory is forecast to be fully liquidated by November 2, 2018 through some retained employees.

5) Inventory Disbursements are required during the pre-close period of the TPS transaction in order to continue the business as a going concern. These purchases will end once the TPS transaction closes. No purchases are forecast for the Broadloom business.

6) Employee related expenses include salary, commissions, remittances and benefit payments for the TPS and Broadloom employees that are to remain post CCAA filing. All employees will be paid in full for wages up to September 11, 2018. It is assumed that the employees related to the TPS Business will continue to be paid in the normal course up to October 1, 2018 in order to maintain the business as a going concern prior.

7) Overhead disbursements include rent, property taxes, utilities and other administrative expenses necessary for continuing to run the TPS business as a going concern and facilitate the CCAA process.

8) Restructuring Costs comprise legal and financial advisor fees associated with the CCAA proceedings and are based on estimates provided by the advisors.

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 KRAUS BRANDS INC., KRAUS CANADA LTD., KRAUS CARPET INC., KRAUS PROPERTIES INC., KRAUS USA INC., and STRUDEX INC.

Court File No. CV-18-604759-00CL

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APPLICATION RECORD

Cassels Brock & Blackwell LLP
2100 Scotia Plaza
40 King Street West
Toronto, ON M5H 3C2

David S. Ward LSUC#: 33541W
Tel: 416.869.5960
Fax: 416.640.3154
dward@casselsbrock.com

Larry Ellis LSUC#: 49313K
Tel: 416.869.5406
Fax: 416.640.3004
lellis@casselsbrock.com

Erin Craddock LSUC#: 62828J
Tel: 416.860.6480
Fax: 416.644.9324
ecraddock@casselsbrock.com

Lawyers for the Applicants