Court File No. CV-22-00690563-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
[COMMERCIAL LIST]

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 14544072 CANADA INC.

SECOND REPORT OF MONITOR

January 11, 2023

GrantThornton

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TABLE OF CONTENTS

INDEX OF APPENDICES

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INTRODUCTION AND BACKGROUND

1. This report (the "**Monitor's Second Report**") is filed by Grant Thornton Limited in its capacity as monitor (in such capacity, the "**Monitor**") of 14544072 Canada Inc. ("**ResidualCo**"), in connection with iS5 Communication Inc.'s ("**iS5**") proceedings under the *Companies' Creditors Arrangement Act* R.S.C. 1985, c. C-36, as amended ("**CCAA**" and with reference to these proceedings, the **"CCAA Proceedings**"), and prior to the conversion to CCAA, iS5's proposal proceedings under the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended ("**BIA**").

2. ResidualCo is a company that holds: (i) proceeds from a court approved sale transaction; and (ii) certain liabilities of the former CCAA applicant in these proceedings, iS5, which were transferred to ResidualCo pursuant to a Reverse

Vesting Order granted in these proceedings on December 1, 2022, as further described below.

3. iS5 is a company that provides customers with information technology services and proprietary hardware products. Specifically, iS5 services critical infrastructure, including the energy, transportation, heavy industrial, and defense industries.

4. On August 5, 2022, iS5 filed a Notice of Intention to Make a Proposal ("**NOI**") pursuant to the BIA and Grant Thornton Limited was appointed as the proposal trustee.

5. The primary purpose of the NOI proceeding was to provide iS5 with the financing required to maintain operations while a stalking horse sale process was conducted in order to identify a buyer, or investor, for iS5. In this regard, the Ontario Superior Court of Justice (Commercial List) (the "**Court**") granted the August 8 Order which approved of a DIP Facility (a debtor-in-possession loan to iS5) to support iS5's operations as well as certain charges to support the NOI restructuring proceeding.

6. Once a sale and investment solicitation process ("**SISP**") was prepared and a stalking horse sale agreement finalized, and pursuant to a motion by iS5, the Court granted the October 17 Order which approved the SISP, the Stalking Horse Agreement, and an extension of time to allow the NOI process to continue while the SISP took place.

7. On December 1, 2022, after the completion of the SISP and based on such results, the Court approved a sale transaction between iS5 and the Stalking Horse Bidder (Elektrophoenix GmbH) (the "**Purchaser**") and granted an Approval and Vesting Order (the Revere Vesting Order). In addition, the Court granted an Order

approving the continuation of the NOI proceedings under the CCAA, the appointment of Grant Thornton Limited as Monitor in the CCAA Proceedings and grant the Monitor certain enhanced powers (including providing the Monitor with the authority to deal with and control ResidualCo and its assets, and the ability to cause ResidualCo to be assigned into bankruptcy). The Court also ordered that all prior orders granted by the Court under the NOI proceedings would remain in full force and effect (amongst other relief). Copies of the December 1 Orders (namely the Approval and Vesting Order (the Reverse Vesting Order), the Initial Order (Continuation Under CCAA), and the Ancillary Order) and the related Endorsement are attached hereto as **Appendix 1**.

8. The sale transaction between iS5 and the Purchaser closed on December 14, 2022. Pursuant to the Reverse Vesting Order, the shares of iS5 were transferred to the Purchaser and the sale proceeds were received by the Monitor and deposited into a trust account for 14544072 Canada Inc./ResidualCo, the entity incorporated for that purpose. All liabilities of iS5 that were not assumed by the Purchaser were transferred to ResidualCo. Following the closing of the sale transaction and in accordance with the December 1, Orders, iS5 emerged from the CCAA Proceedings and is now owned and operated by the Purchaser, free and clear of prior liabilities or claims against iS5.

9. On December 22, 2022, the Court granted an Order (the "**December 22 Order**"), approving (amongst other relief) the payment in full of iS5's indebtedness to Silicon Valley Bank ("**SVB**"), the primary secured creditor of iS5. The Court also granted an extension of the stay of proceedings in the ResidualCo CCAA Proceedings to

January 31, 2023 and declared that the WEPPA program applied to ResidualCo in these CCAA Proceedings. A copy of the December 22 Order and related Endorsement is attached hereto as **Appendix 2**.

10. The primary purpose of the extension of the stay of proceedings to January 31, 2023 was to allow the Monitor additional time to review and seek Court approval of further distributions of the net sale proceeds, initiate the WEPPA program, provide notice to the unsecured creditors of ResidualCo of the relief to be requested by the Monitor from this Court prior to the conclusion and termination of the CCAA Proceedings, and prepare for the eventual bankruptcy of ResidualCo.

PURPOSE OF THIS REPORT

11. The purpose of this Monitor's Second Report is to provide the Court with an update and the Monitor's request for an Order to:

    a. distribute the balance of the net sale proceeds;

    b. approve of the Monitor's statement of receipts and disbursements dated January 9, 2023;

    c. approve of the Monitor's fees and disbursements, and that of its legal counsel, including certain fees and disbursements incurred by the Monitor in its former capacity as proposal trustee, and an estimate of final fees to conclude the CCAA Proceedings;

    d. approve of a transfer of funds from the sale proceeds to both Grant Thornton Limited and Cozen O'Connor LLP ("**Cozen**") for retainers for the fees and disbursements required to administer the ResidualCo bankruptcy proceedings;

e. approve the Monitor’s Second Report, and the activities, conduct and actions of the Monitor as set our herein;

f. terminate these CCAA proceedings; and,

g. discharge Grant Thornton Limited as Monitor subject to the completion of certain Remaining Activities (as defined herein), and upon the filing of the Monitor’s Discharge Certificate.

12. Further background information concerning iS5 and ResidualCo is provided in the four Dias Affidavits sworn in support of the applications and motions of iS5, which have been filed with the Court, as well as the Proposal Trustee/Monitor’s prior reports which are all available on the Monitor’s case webpage, www.grantthornton.ca/iS5.

RESTRICTIONS

13. This Monitor’s Second Report has been prepared for the use of this Court and ResidualCo’s stakeholders. Accordingly, the reader is cautioned that this Monitor’s Second Report may not be appropriate for any other purpose.

14. All references to dollars are in Canadian currency unless referenced otherwise.

15. Capitalized terms not defined in this Monitor’s Second Report have the meanings ascribed to them in the Dias Affidavits, the First Report, Second Report, Third Report, Fourth Report, the Monitor’s First Report, and the Stalking Horse Agreement.

16. Any reference to the activities of the Monitor relating to ResidualCo relate to the time period from the Monitor’s First Report issued on December 15, 2022 up to and including the date this report is issued.

DISTRIBUTION

17. The Monitor previously distributed sufficient funds to pay, in full, SVB as the primary secured creditor holding a first ranking general security interest in the sale proceeds held by ResidualCo, and pursuant to the December 22 Order. The Monitor and its counsel have since reviewed the claims of the group of noteholders who continue to claim a secured interest in the sale proceeds held by ResidualCo (the "**Secured Noteholders**").

18. The Monitor's Counsel, Cozen, has reviewed the security documents granted to the Secured Noteholders by iS5 and considered whether such security would extend to the sale proceeds with ResidualCo. Cozen has provided an independent opinion to the Monitor, subject to customary qualifications and assumptions, that each of BDC Capital Inc. ("**BDC**") and Clearsky Power & Technology Fund II LLC ("**Clearsky**") have valid security over the assets of ResidualCo. (being the net sale proceeds) that would be enforceable against a licensed insolvency trustee.

19. The claims of the Secured Noteholders are derived from two separate Note issuances, the 2020 note issuance, and the 2021 note issuance. Each note issuance is perfected by a single PPSA registration: (i) BDC with respect to the 2020 note issuance; and (ii) Clearsky with respect to the 2021 note issuance. Pursuant to an Inter-Creditor Agreement amongst and between the Secured Noteholders and iS5, each of BDC and ClearSky registered such security interest on behalf of themselves and the other applicable Secured Noteholders. As the other Secured Noteholders did not make their own corresponding PPSA registration against the Company, the Monitor has requested and has received

letters of direction from each of BDC and ClearSky which directs the Monitor to, notwithstanding the absence of PPSA registrations in favour of the remaining Secured Noteholders, distribute the remaining sale proceeds to each of the Secured Noteholders on a pro rata, pari passu (as between the 2020 note issuance and the 2021 note issuance) basis, in accordance with their relative claims as Secured Noteholders and the terms of the Secured Notes and ancillary documentation (including an Inter-Creditor Agreement) between the parties and iS5. Copies of the Secured Notes, Inter-Creditor Agreement and letters of direction to the Monitor from BDC and Clearsky are attached hereto as **Appendix 3**.

20. The total amount of secured indebtedness due to the Secured Noteholders, including accrued interest, exceeds $11 million, which also exceeds the amount available for distribution. As a result, there are insufficient sale proceeds to repay the Secured Noteholders in full, and therefore insufficient sale proceeds to provide a financial recovery to unsecured creditors.

21. The Monitor has prepared the following distribution table which sets out the proposed distributions to each of the Secured Noteholders. The proposed distribution is based on a pro rata/pari passu basis, utilizing each Secured Noteholders relative percentage of the total aggregate claim of all Secured Noteholders (the “**Secured Noteholder Allocation**”), and the estimated amount available for distribution.

Proposed Distribution	Principal	Interest	Total Claim	Allocation	Distribution
2020 Note Issuance					
Coutinho Family Trust	$ 35,000	$ 6,403	$ 41,403	0.362%	$ 8,818
Cao Yang - Note 1	20,000	3,659	23,659	0.207%	5,039
Phoenix Contact Venture I	1,000,000	182,947	1,182,947	10.341%	251,950
ClearSky Security Fund I	500,000	91,473	591,473	5.171%	125,975
ClearSky Power & Technology Fund II	1,500,000	274,420	1,774,420	15.512%	377,924
BDC Capital Inc.	3,000,000	548,840	3,548,840	31.024%	755,849
	$ 6,055,000	$ 1,107,742	$ 7,162,742	62.616%	$ 1,525,555
2021 Note Issuance					
ClearSky Power & Technology Fund II	$ 1,875,000	$ 223,998	$ 2,098,998	18.349%	$ 447,055
ClearSky Security Fund I	625,000	74,666	699,666	6.116%	149,018
Pheonix Contact Venture Funds I	1,250,000	149,332	1,399,332	12.233%	298,036
Cao Yang - Note 2	20,000	2,389	22,389	0.196%	4,769
Clive Dias	25,000	2,987	27,987	0.245%	5,961
Artemis Capital Limited	25,000	2,987	27,987	0.245%	5,961
	$ 3,820,000	$ 456,359	$ 4,276,359	37.384%	$ 910,799

22. The Monitor understands that all other creditors who have made registrations under the PPSA against iS5 have limited their claims to specific assets and claim Purchase Money Security Interests (PMSIs) in such assets. As a result, such secured claims would be limited to such underlying assets and not the sale proceeds held with ResidualCo. The Monitor is not aware of any outstanding claims which would rank in priority to the Secured Noteholder's security.

23. The Monitor respectfully requests the Court grant an order authorizing and directing the Monitor to distribute the net sale proceeds to the Secured Noteholders in accordance with the Monitor's Secured Noteholder Allocation.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

24. On December 14, 2022, the sale transaction between iS5 and the Purchaser closed, including the receipt of the sale proceeds in a trust account for ResidualCo. Since receiving the sale proceeds, the Monitor on behalf of ResidualCo has paid SVB's claim in full, and disbursed funds pursuant to the previously approved

Administration Charge to pay the outstanding legal fees to Fasken, iS5's counsel prior to the closing of the sale transaction.

25. As part of its reporting function to the Court and the ResidualCo stakeholders, the Monitor has prepared a statement of receipts and disbursements dated January 11, 2023 (the "**R&D**") which sets out the receipts and disbursements to date, as well as the proposed disbursements related to final costs and the distribution to Secured Noteholders (if approved). A copy of the R&D is attached hereto as **Appendix 4**.

MONITOR'S ACTIVITIES

26. Since the issuance of the Monitor's First Report, the Monitor has performed the following activities:

   a. on behalf of ResidualCo, distributed sufficient proceeds to repay, in full, the secured indebtedness owed to SVB;

   b. reviewed the claims of Secured Noteholders, an independent security opinion, and calculated and made preparations to administer the proposed distributions to the Secured Noteholders;

   c. prepared the communication to unsecured creditors to notify such parties of this motion, the pending conclusion of the CCAA Proceedings and the anticipated bankruptcy of ResidualCo;

   d. assisted with correspondence and planning on the transition of certain banking services;

   e. responded to creditor and other stakeholder enquiries;

f. corresponded with iS5, the Purchaser, and respective counsel in regard to assumed liabilities and lists of creditors;

g. updated and maintained a case web page for these CCAA Proceedings in accordance with the Commercial List E-Service Protocol; and,

h. prepared the Monitor's Second Report.

27. The Monitor respectfully requests that the Court approve of this Monitor's Second Report and the Monitor's activities, conduct and actions described herein.

PROFESSIONAL FEES

28. The Initial Order that was issued by the Court on December 1, 2022 had the effect of continuing the NOI proceedings under the CCAA, appointing Grant Thornton Limited as the Monitor of iS5, and pursuant to paragraph 28, authorizing the Monitor, and its legal counsel, to be paid its reasonable fees and disbursements incurred, either prior to, on or subsequent to the granting of the Initial Order. In addition, pursuant to paragraph 6 of the Initial Order, the Court Ordered that the proposal trustee shall take all necessary steps to tax its fees and disbursements, and that of its counsel.

29. In addition to the Initial Order, on December 1, 2022, the Court also granted the Ancillary Order which approved of the Monitor's fees (then in its capacity as proposal trustee), as well as its legal counsel's fees, from the commencement of the NOI proceedings to October 31, 2022, and November 15, 2022, respectively. The Monitor now seeks approval of the fees and disbursements of the proposal trustee/Monitor, and that of its counsel, from November 1, 2022 and November 16, 2022, respectively, to December 31, 2022.

30. The total fees and disbursements of the Monitor from November 1, 2022 to December 31, 2022 amount to $64,345.50, plus HST in the amount of $8,389.62, totaling $72,925.12. The details of the time spent and services provided by the Monitor are more particularly described in the Affidavit of Dan Wootton, sworn January 9, 2023 in support hereof, a copy of which is attached hereto as **Appendix "5"**.

31. The total fees of the Monitor's counsel, Cozen LLP, from November 16, 2022 to December 31, 2022 amount to $94,110, plus expenses and disbursements in the amount of $320.00 and HST in the amount of $12,275.90, totaling $106,705.90. The details of the time spent and services provided to the Monitor are more particularly described in the Affidavit of Shahrouz Hafez Ghoran, sworn January 11, 2023 in support hereof, a copy of which is attached hereto as **Appendix "6"**.

32. The Monitor's remaining fees, disbursements, and taxes, as well as that of its counsel, from January 1, 2023 and as estimated to conclude these CCAA Proceedings may be settled through a combination of the current retainers held by both the Monitor and Cozen, as well as a holdback for such final fees (the "**Final Fees**"). The Monitor currently holds a retainer of $15,000, and Cozen holds a retainer of $25,000. Based on a review of time incurred to date, the aggregate estimate of Final Fees, less the retainers, is $40,000. Should any portion of the holdback for Final Fees not be utilized in completing all steps required to conclude the CCAA Proceedings, then such surplus proceeds will be distributed to the Secured Noteholders, in partial satisfaction of their remaining secured claims, and based on the Monitor's Secured Noteholder Allocation.

33. The Monitor has estimated $30,000 in fees, taxes and disbursements as the costs relating to the administration of the bankruptcy by the licensed insolvency trustee of ResidualCo, with an additional amount of up to $15,000 for the fees, taxes and disbursements of its legal counsel. The Monitor respectfully requests the Court approve the transfer of $30,000 to Grant Thornton Limited and $15,000 to Cozen LLP, from the sale proceeds, as retainers for the anticipated bankruptcy related costs of ResidualCo. Similar to the Final Fees, should any portion of the retainers not be utilized in the administration of the anticipated ResidualCo bankruptcy proceedings, then such surplus proceeds will be refunded to the Monitor and distributed to the Secured Noteholders based on the Monitor's Secured Noteholder Allocation.

34. The Monitor is of the view that these accounts are reasonable in the circumstances. The Monitor respectfully requests that the Court approve the abovementioned fees, disbursements, taxes, the holdback for Final Fees, and bankruptcy related retainers to be paid by ResidualCo.

CCAA TERMINATION

35. Pursuant to paragraph 19 of the December 1, 2022 Approval and Vesting Order, the Monitor has been granted certain enhanced powers, including the authority to take, on behalf of ResidualCo, the necessary steps to terminate and bring these CCAA Proceedings to an end.

36. In the Monitor's view, the NOI and CCAA Proceedings have accomplished the overall objectives of the restructuring proceedings commenced by iS5 of identifying a buyer, completing a sale transaction, continuing the operation of iS5, the

preserving jobs, continuing customer/supplier relationships, and providing a greater recovery to secured creditors and value to stakeholders generally than what would have been realized if the restructuring proceedings were not successful and iS5 was liquidated.

37. The Monitor is of the view that there are no further realizations available to ResidualCo. The net sale proceeds remain in trust with the Monitor, and subject to the approval of the Court, the Monitor, on behalf of ResidualCo, will distribute the remaining sale proceeds as described in this Report and then assign ResidualCo into bankruptcy. As a result, there is no further benefit for the CCAA Proceedings to continue, or for the current stay of proceedings to be extended.

38. Upon the termination of the CCAA Proceedings, all previously approved charges, including the DIP Lender's Charge, Director's Charge, and remaining Administration Charge will no longer be required and would therefore be terminated, released and discharged.

39. In anticipation of seeking approval for the relief requested on this motion, the Monitor planned to notify the unsecured creditors of ResidualCo of the developments in these proceedings and its pending request for approval to terminate the CCAA proceedings as such parties have not been represented or served with all of the NOI and CCAA court materials. The Monitor has taken steps to work with the Purchaser to obtain a final list of assumed liabilities in order to confirm the list of creditors for ResidualCo however such list has yet to be finalized and provided to the Monitor. The Monitor is of the view that to save costs and avoid unnecessary delay, it should not wait until such list is finalized and therefore,

prepared a letter to all unsecured creditors of iS5 whose claims were transferred to ResidualCo, which would include both the remaining ResidualCo unsecured creditors, as well as certain unsecured creditors who may be assumed by the Purchaser. The Monitor has shared the letter to unsecured creditors and list of creditors with counsel for iS5. The letter to unsecured creditors advises of the January 20, 2023 Court hearing and the Monitor's intention to distribute all of the sale proceeds and conclude the CCAA Proceedings. The letter to unsecured creditors was sent by regular mail on January 6, 2023, a copy of which attached hereto as **Appendix 7**.

40. The Monitor respectfully requests that the Court grant an order terminating the CCAA Proceedings, upon the filing of the Monitor's Discharge Certificate.

REMAINING ACTIVITIES AND MONITOR'S DISCHARGE

41. The Monitor has fulfilled its statutory duties, as well as those duties set out in the Initial Order and the other orders of this Court made in these CCAA Proceedings.

42. In connection with the termination of the CCAA Proceedings, the Monitor intends to cause ResidualCo to file an assignment into bankruptcy naming Grant Thornton Limited as licensed insolvency trustee of ResidualCo, pursuant to the enhanced powers provided to the Monitor in the Approval and Vesting Order dated December 1, 2022.

43. The Monitor respectfully requests the Court grant on order discharging Grant Thornton Limited as the Monitor of the CCAA Proceedings, subject to the completion of the following Remaining Activities and the filing of a Monitor's Discharge Certificate:

a. distribution to the Secured Noteholders, if approved;

b. payment of approved fees, disbursements, Final Fees, and retainers;

c. submission or required materials to Service Canada pursuant to the WEPPA program; and,

d. preparation of materials required to assign ResidualCo into bankruptcy.

CONCLUSION

44. Based on the above, the Monitor respectfully requests that the Court grant the relief requested, including approval of the proposed distribution to the Secured Noteholders; the Monitor's Second Report and the activities, conduct and actions of the Monitor described herein; the Monitor's fees, disbursements, taxes, holdback for Final Fees and retainers, as well as those of its counsel; discharging Grant Thornton Limited as Monitor (subject to the filing of the Monitor's Discharge Certificate); and terminating these CCAA Proceedings.

All of which is respectfully submitted,

GRANT THORNTON LIMITED
In its capacity as Court-Appointed Monitor of 14544072 Canada Inc.
and not in its personal or corporate capacity.

Daniel Wootton

D. Wootton, CIRP, LIT
Senior Vice President