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 TEHAMA INC.

REPORT OF THE PROPOSED MONITOR
January 20, 2023

INTRODUCTION

1. Deloitte Restructuring Inc. ("**Deloitte**" or the "**Proposed Monitor**") understands that Tehama Inc. ("**Tehama**" or the "**Applicant**") will be bringing an application before the Ontario Superior Court of Justice (Commercial List) (the "**Court**") to commence proceedings under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), and to seek an order (the "**Proposed Initial Order**"), among other things, granting a stay of proceedings (the "**Stay Period**").

2. This report (the "**Report**") has been prepared by the Proposed Monitor prior to and in contemplation of its appointment as Monitor in Tehama's CCAA proceeding to provide information to the Court for its consideration on the Applicant's initial hearing seeking protection pursuant to the CCAA.

PURPOSE

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

    i. Deloitte's qualifications to act as Monitor;

    ii. Background information with respect to Tehama;

    iii. An overview of Tehama's 13-week cash flow forecast (the "**Cash Flow Forecast**"), attached hereto as **Appendix "A"**;

    iv. The relief being sought by the Applicant in the Proposed Initial Order; and

    v. The Proposed Monitor's conclusions and recommendations.

TERMS OF REFERENCE AND DISCLAIMER

4. In preparing this 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 Tehama, and discussions with management of the Applicant ("**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 Report consists of forecasts and 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 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.

DELOITTE'S QUALIFICATIONS TO ACT AS MONITOR

9. Deloitte is a licensed insolvency trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada), R.S.C. 1985, c. C-3, as amended. Even though the Proposed Monitor fulfills the requirements of section 11.7(1) of the CCAA, it is subject to the requirement set out in section 11.7(2) of the CCAA to seek the permission to act as Monitor.

10. Deloitte LLP, an affiliate of Deloitte Restructuring Inc., acted as auditor of the Applicant for its fiscal years ended December 31, 2020 and December 31, 2021. The audit report for the December 31, 2021 fiscal year was rendered on March 30, 2022. Tehama began having its financial statements audited as a result of a requirement by CIBC for audited financial

statements. The audits were conducted by the Ottawa office of Deloitte LLP. Deloitte LLP also prepares corporate tax returns for Tehama on an annual basis.

11. Deloitte LLP has been replaced by another audit firm for the fiscal year ended December 31, 2022. As discussed in paragraphs 79 through 83 of the Affidavit of Rob White, Chief Financial Officer of Tehama sworn January 20, 2023 (the "**White Affidavit**"), the primary financial statement user, Canadian Imperial Bank of Commerce (the "**CIBC**"), has sold it's secured debt to 14667913 Canada Inc., pursuant to an Assignment of Debt and Security Agreement (as described and defined in the White Affidavit), as well as related agreements of settlement, including a full and final release. As such they will no longer be relying on Deloitte LLP's audited financial statements.

12. As Tehama's liquidity concerns increased over the past few months, and as a result of its increasing concern over the deterioration of the CIBC relationship, Deloitte's Toronto based restructuring group was retained to assist it in trying to navigate a solution to the CIBC matter and to help guide the Company in focussing on ways to effectively restructure its affairs. Following the freezing of the Company's bank accounts, the focus immediately shifted to considering relief under the CCAA. At that stage, the Company had neither the time nor the resources to try to get a new advisor up to speed. In light of the fact that CIBC is no longer a creditor, and that the purchaser of that debt supports Deloitte continuing in this role, Deloitte has worked extensively with Tehama over the past two (2) weeks to provide assistance in preparing for its filing under the CCAA. This included assistance in the preparation of the Applicant's CCAA Cash Flow Forecast (as hereinafter defined), as well as general support in preparing for CCAA proceedings.

13. In preparation for a role as CCAA Monitor in this matter, Deloitte has erected an ethical wall to separate the Monitor team in Toronto and Calgary from the former audit team in Ottawa (such professionals who practice with Deloitte's affiliate, Deloitte LLP). The ethical wall consists of procedures and processes that prohibit communications between teams relating to the prior audit engagements and the monitorship, separation and physical security requirements pertaining to physical files and information, as well as information technology restrictions on Deloitte's networks with respect to access to electronic files. The ethical wall has been erected by Deloitte's risk and ethical walls group, which independently monitors compliance by the various teams.

14. With the permission of the court, and with any restrictions it may impose under s. 11.7(2) of the CCAA, Deloitte has consented to act as Monitor, should the Court grant the Applicant's request for the Proposed Initial Order.

15. The Proposed Monitor has retained Goodmans LLP ("**Monitor's Counsel**") to act as its independent counsel in these CCAA proceedings.

BACKGROUND INFORMATION WITH RESPECT TO TEHAMA

16. This Report should be read in conjunction with the White Affidavit for additional background information with respect to Tehama, upon which the Proposed Monitor relies.

17. The Company is a private company incorporated under the *Canada Business Corporations Act*, with its head office located in Ottawa, Ontario. The Company provides a next generation desktop as a service ("**DaaS**") platform, which enables customers to utilize

cloud-based virtual offices, rooms, and desktops anywhere in the world, facilitating secure, virtual workspaces.

Historic Operating Performance, Financial Position and Causes of Insolvency

18. An account of the Company's historic operating performance and financial position (including details with respect to its assets and liabilities as at December 31, 2022) is provided in the White Affidavit.

19. The Company has experienced significant net losses since its inception. Although this is not atypical for businesses in the development phase in the sector in which the Company operates, it has resulted in a significant leveraging of the Company's balance sheet, and now a significant liquidity crisis. The Proposed Monitor is of the view that the Company is insolvent.

APPLICANT'S CASH FLOW FORECAST

20. The Applicant, with the assistance of the Proposed Monitor, has prepared the Cash Flow Forecast, which covers the period from January 20, 2023 to April 21, 2023 (the "**Cash Flow Period**") for the purposes of projecting the estimated results of the Applicant's planned operations and other activities during the Cash Flow Period. A copy of the Cash Flow Forecast is attached as **Appendix "A"** hereto.

21. The Cash Flow Forecast has been prepared by Management, using the probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast (the "**Assumptions**"), and is presented on a weekly basis during the Cash Flow Period.

22. The Proposed Monitor has reviewed the Cash Flow Forecast 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 a cash flow statement.

23. In accordance with the standard, the Proposed Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to the Information. 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 Forecast. The Proposed Monitor also reviewed the support provided by Management for the Assumptions and the preparation and presentation of the Cash Flow Forecast.

24. 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 Forecast;

ii. as at the date of this Report, the Assumptions are not suitably supported and consistent with the plans of the Applicant or do not provide a reasonable basis for the Cash Flow Forecast, given the Assumptions; or

iii. the Cash Flow Forecast does not reflect the Assumptions.

25. Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no opinion as to whether the projections in the Cash Flow Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report or relied upon in preparing this report. Neither does the Proposed Monitor express any opinion as to the performance of Tehama's statutory obligations with regard to projected payments to be made in accordance with the Cash Flow Forecast including, inter alia, the payment of wages, the payment of government remittances, and the payment of payroll deductions to be made by Tehama.

26. The Cash Flow Forecast has been prepared solely for the purpose described in the Notes to the Cash Flow Forecast, and readers are cautioned that the Cash Flow Forecast may not be appropriate for other purposes.

27. As set out in the White Affidavit, the Company has secured a debtor in possession financing facility (the "DIP Term Sheet") from the same related party that acquired the former CIBC indebtedness. The facility commitment is $500,000 and is necessary for the Company to satisfy its post-filing obligations as they come due in the coming weeks during the Cash Flow Period. Based on the Cash Flow Forecast, the Company has the necessary funding to pursue its restructuring for a twelve-week period should it receive the relief requested pursuant to its application for the Proposed Initial Order.

THE PROPOSED INITIAL ORDER

Stay of Proceedings

28. The Company requires a stay of proceedings and other protections provided by the CCAA in order to preserve corporate value, to prevent any enforcement by creditors and other stakeholders that could threaten its business, and to effect its restructuring plans. The Proposed Initial Order provides for an initial 10-day stay period.

DIP Financing

29. The Applicants have executed the DIP Term Sheet, which has been filed with its application materials. The DIP Term Sheet includes the following terms:

i. Borrower: Tehama Inc.

ii. Maximum borrowings: $500,000;

iii. Interest rate: 5% per annum;

iv. Purpose: ordinary course working capital and restructuring costs in accordance with the Cash Flow Forecast;

v. Security: a first priority charge on all of the Company's property, provided by the Proposed Initial Order, if granted, subject only to the Administration Charge and the Directors' Charge;

vi. Maturity: the earliest of April 20, 2023, the closing of a sale in the contemplated SISP process, the termination of the CCAA proceedings or an event of default.

30. Importantly, the DIP Term Sheet does not contain any case controls of the type one might find in other DIP term sheets.

31. Since the Cash Flow Forecast suggests that total advances in the first 10 days of the CCAA proceedings would total approximately $285,000, the Proposed Initial Order seeks to approve only up to $300,000 of the authorized limit in the DIP Term Sheet, and to similarly limit the proposed DIP Lender's Charge to $300,000. Should the Proposed Initial Order be issued, the Company intends to seek to increase both of those numbers to the full $500,000 in any Amended and Restated Initial Order.

32. Based on the foregoing, the Proposed Monitor supports the DIP Financing.

Ability to make pre-filing payments

33. The Proposed Initial Order permits the Applicant to make pre-filing payments as necessary to critical suppliers. As detailed in the White Affidavit, there are a limited number of critical suppliers, however, the Company is dependent on them for its continued operation. The Monitor has reviewed the nature and extent of services provided by the Company's identified critical suppliers and agrees with the Company's assessment and their proposed treatment in a CCAA proceeding.

Proposed Charges

34. The Proposed Initial Order provides for certain priority charges, in order of priority, as follows:

i. First – the Administration Charge against the Applicant's Property to a maximum amount of $200,000 as security for the professional fees and disbursements incurred by counsel to the Applicant, the Monitor and the Monitor's counsel;

ii. Second – the Directors' Charge against the Applicant's Property to a maximum amount of $225,000 as security for the indemnity granted in favour of the Applicant's directors and officers pursuant to the Proposed Initial Order against obligations and liabilities that they may incur as directors or officers of the Applicant after the commencement of these CCAA Proceedings. The calculation of this charge is based on the potential exposure of Tehama's directors and officers with respect to wages, source deductions and commodity taxes that Tehama may be obligated for during the initial 10-day stay period contemplated by the Proposed Initial Order; and

iii. Third – the DIP Charge, which secures advances under the DIP Term Sheet, to a maximum of $300,000.

35. The Monitor has reviewed the sizing of the charges and agrees with Company management's assessment and calculation of same. The Monitor believes the charges are necessary for professionals, Directors, and DIP Lender to participate in the Company's restructuring efforts.

36. The Monitor understands that, should the Proposed Initial Order be issued, the Company intends to seek to increase the Administration Charge to $300,000, but that the amount of the Directors' Charge would not change.

CONCLUSION

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

All of which is respectfully submitted this 20th day of January 2023.

Deloitte Restructuring Inc.
in sole its capacity as Proposed Monitor
of Tehama Inc.

Philip J. Reynolds, LIT
Senior Vice-President

APPENDIX “A”

Tehama Inc.
For the Consolidated 13-week period ending April 21, 2023
(Unaudited, CAD$s)

Prepared by Management

		Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	
		27-Jan-23	3-Feb-23	10-Feb-23	17-Feb-23	24-Feb-23	3-Mar-23	10-Mar-23	17-Mar-23	24-Mar-23	31-Mar-23	7-Apr-23	14-Apr-23	21-Apr-23	Total
Week Ended	**Notes**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**
Revenue															
Receivables	1	-	227,610	-	-	-	209,033	-	-	-	-	209,033	-	-	645,675
Other revenues	2	-	110,000	-	-	400,000	-	-	-	-	-	-	-	-	510,000
Total Revenue		**-**	**337,610**	**-**	**-**	**400,000**	**209,033**	**-**	**-**	**-**	**-**	**209,033**	**-**	**-**	**1,155,675**
Payments															
Salaries and wages	3	(113,846)	-	(115,694)	-	(113,846)	-	(115,694)	-	(113,846)	-	(115,694)	-	(113,846)	(802,467)
Rent	4	(110,000)	-	-	-	-	-	-	-	-	-	-	-	-	(110,000)
Insurance	5	-	-	(1,206)	-	-	-	(1,206)	-	-	-	(1,206)	-	-	(3,618)
Vendor payments	6	(250,000)	(160,970)	-	-	16,950	(160,970)	-	-	-	16,950	(160,970)	-	-	(699,011)
Other operating expenses	7	(19,000)	-	-	-	(19,000)	-	-	-	(19,000)	-	-	-	-	(57,000)
Total Payments		**(492,846)**	**(160,970)**	**(116,900)**	**-**	**(115,896)**	**(160,970)**	**(116,900)**	**-**	**(132,846)**	**16,950**	**(277,871)**	**-**	**(113,846)**	**(1,672,097)**
Net Cash Flow From Operations		**(492,846)**	**176,640**	**(116,900)**	**-**	**284,104**	**48,062**	**(116,900)**	**-**	**(132,846)**	**16,950**	**(68,838)**	**-**	**(113,846)**	**(516,421)**
Professional fees	8	**(190,000)**	**-**	**-**	**-**	**(125,000)**	**-**	**-**	**-**	**(125,000)**	**-**	**-**	**-**	**(125,000)**	(565,000)
DIP Advances	9	**284,044**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**107,841**	**-**	**51,888**	**-**	**238,846**	**682,620**
Net Cash Flow		**(398,802)**	**176,640**	**(116,900)**	**-**	**159,104**	**48,062**	**(116,900)**	**-**	**(150,005)**	**16,950**	**(16,950)**	**-**	**-**	**(398,802)**
Opening Cash balance (deficit)		**398,802**	**-**	**176,640**	**59,739**	**59,739**	**218,843**	**266,905**	**150,005**	**150,005**	**-**	**16,950**	**-**	**-**	**398,802**
Net Cash Flow		(398,802)	176,640	(116,900)	-	159,104	48,062	(116,900)	-	(150,005)	16,950	(16,950)	-	-	(398,802)
Closing Cash balance (deficit)		**-**	**176,640**	**59,739**	**59,739**	**218,843**	**266,905**	**150,005**	**150,005**	**-**	**16,950**	**-**	**-**	**-**	**-**
Cumulative DIP advances		***284,044***	***284,044***	***284,044***	***284,044***	***284,044***	***284,044***	***284,044***	***284,044***	***391,885***	***391,885***	***443,774***	***443,774***	***682,620***	

General Notes

Tehama Inc. ("**Tehama**"), headquartered in Ontario Canada with a satellite office in the United States, provides a next generation desktop as a service ("**DaaS**") platform, which enables customers to utilize cloud-based virtual offices, rooms, and desktops anywhere in the world, facilitating secure, virtual workspaces. The Tehama 13-week cash flow (the "**Tehama CF**") was prepared by Management based on a potential CCAA filing date of January 19, 2023. The Tehama CF converts all USD transactions based on the Bank of Canada's January 2023 monthly average exchange rate of CAD$1.34 = USD$1.00.

Specific notes and assumptions:

1 Receivable collections are based on a review of the current aged receivables and corresponding historical collection terms.

2 Tehama has filed its claims with the Canada Revenue Agency ("**CRA**") for its commodity tax credits and available Scientific Research and Experimental Development ("**SRED**") tax credits and anticipates receiving a commidty tax refund of approximately $110,000 the week ending February 3, 2023 and a SRED refund of approximately $400,000 the week ending February 24, 2023.

3 Tehama currently employs 24 key personnel (15 full-time and 9 part-time staff) to maintain the day-to-day operations of the company. Prior to the date of this report approximately 32 employees were laid off with recall dates ranging from February 2023 to August 2023, in accordance with the applicable labour laws. Tehama uses a third party payroll service provider, ADP.

4 Tehama entered into a six year and 10-month lease, with a related party, for office premises commencing September 1, 2019 for approximately $110,000 per month.

5 Tehama holds one (1) insurance policy through Lloyd's Underwriters from commercial general liability, automobile liability, employer liability and errors & omissions and Cyber liability expiring in July 2023. All premiums are current and are paid monthly. Director and office liability coverage is held at the parent company level for all subsidiary companies.

6 Vendor payments comprise of direct costs to maintain operations during the 13-week period ending April 21, 2023. Week 1 of the Tehama CF includes a vendor deposit in the amount of $250,000 to secure the continuation of critical services.

7 Operating expenses comprise of general office and administrative costs incurred to maintain day-to-day operations, including, but not limited to, office expenses, bank fees, payroll fees, and proposed credit card expenses.

8 Professional fees have been forecast based on projected costs by professional services firms related to the restructuring. Actual expenses will be dependent on a number of unknown factors, including the timing of a restructuring plan to be put forward to the creditors and the number of Court applications which are

9 The Tehama CF reflects a proposed DIP requirement totaling approximately $683,000 (excluding costs and expenses) for the 13-week cash flow period ending April 21, 2023.