Court File No.: CV-20-00642010-00CL

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 PERASO TECHNOLOGIES INC.

Applicant

REDACTED VERSION

THIRD REPORT OF THE MONITOR

August 11, 2020

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THIRD REPORT OF THE MONITOR

INTRODUCTION

1. On June 3, 2020, Peraso Technologies Inc. ("**Peraso**", the "**Company**" or the "**Applicant**") applied for and was granted protection from the Ontario Superior Court of Justice (Commercial List) (the "**Court**") under the *Companies' Creditors Arrangement Act* R.S.C. 1985, c. C-36, as amended ("**CCAA**"), pursuant to an Order of Mr. Justice Hainey dated June 3, 2020 (the "**Initial Order**"). Ernst & Young Inc. ("**EY**" or the "**Monitor**") was appointed Monitor of the Applicant in this CCAA proceeding. The Initial Order provided a stay of proceedings until June 13, 2020 (the "**Stay Period**") with respect to the Applicant and certain current and former directors of the Applicant.

2. On June 12, 2020, the Court heard a motion brought by the Applicant (the "**Comeback Motion**") and, among other things, amended and restated the initial order (the "**Amended and Restated Initial Order**") and extended the Stay Period to July 3, 2020.

3. On July 2, 2020, the Court heard a motion brought by the Applicant and approved a debtor-in-possession credit agreement and extended the Stay Period to August 14, 2020.

PURPOSE

4. The purpose of this third report of the Monitor (the "**Third Report**") is to provide information to this Court about:

   a) the Applicant's operations and activities since the date of the Second Report of the Monitor dated June 29, 2020 (the "**Second Report**");

   b) the mediation undertaken by the Applicant and Ubiquiti (as defined below) in July, 2020 relating to the Ubiquiti Litigation;

   c) the receipts and disbursements of the Applicant from June 20, 2020 to July 31, 2020 (the "**Reporting Period**");

   d) the Applicant's revised cash flow forecast for the period from August 1, 2020 to August 28, 2020 (the "**Cash Flow Forecast**");

   e) the ancillary insolvency proceeding commenced by the Monitor as foreign representative of the Applicant under Chapter 15 of Title 11 of the *United States Code*;

   f) an update on the Applicant's Debtor-in-Possession financing process;

   g) the Applicant's request to seal the Applicant's cash flow forecast, the unredacted August 10 Glibbery Affidavit (as defined below), and the unredacted Third Report (collectively, the "**Confidential Documents**"); and

   h) the Applicant's request for an order that the Stay Period be extended to August 28, 2020.

TERMS OF REFERENCE

5. Capitalized terms used but not defined in this Third Report are as defined in the Affidavit of Ronald Glibbery (the "**August 10 Glibbery Affidavit**") filed in support of the Company's motion for an extension of the stay of proceedings, which motion is returnable August 13, 2020.

6. In preparing this Third Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books, records and financial information prepared by the Applicant, discussions with management of the Applicant ("**Management**"), and information from other third party sources (collectively, the "**Information**"). Except as described in this Report in respect of the Cash Flow Forecast:

a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

b) some of the information referred to in this Third Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.

7. Future oriented financial information referred to in this Third 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 indicated, the Monitor's understanding of factual matters expressed in this Report concerning the Applicant and its business is based on the Information, and not independent factual determinations made by the Monitor.

9. Unless otherwise stated, all monetary amounts contained herein are expressed in United States dollars.

OVERVIEW OF THE APPLICANT

10. This Third Report should be read in conjunction with the August 10 Glibbery Affidavit for additional background and financial information with respect to the Applicant.

11. The Applicant's products are primarily used in wireless technology that operates on the 60 gigahertz ("**GHz**") band and are being designed to power the next generation of high-speed wireless networks.

12. While Peraso currently generates most of its revenue by providing engineering services, it anticipates its future revenue will be primarily derived from two primary product lines: (i) software and (ii) chipsets. "Software" refers to the programs and technology used by computers, but does not consist of a physical item. "Chipsets" are physical products, made up of electrical components, at least one radio, one baseband, and typically an antenna. Peraso primarily manufactures and distributes two chipsets:

    a) **"W" Series Chipsets –** these chipsets operate as an alternative to wired technology in consumer electronic devices; and

    b) **"X" Series Chipsets –** these chipsets work with high performance wireless applications and can create wireless networks with a range of more than 1.5 kilometres.

13. Peraso is in the process of leveraging its expertise with the 60 GHz wireless technology to enter the highly publicized 5G market.

14. As of July 31, 2020, the Applicant employed approximately 67 individuals and contractors in Canada and the United States.

UPDATE ON THE APPLICANT'S ACTIVITIES

15. Since the date of the Second Report, the Applicant, with the assistance of the Monitor, has continued working to stabilize its operations and to address questions from its employees, suppliers and other stakeholders regarding the CCAA proceeding.

16. The Applicant, with the assistance of the Monitor, has continued to contact certain suppliers by phone and email to discuss the CCAA proceeding. As described above, the Applicant continues to provide engineering services and sell chipsets to its customers, while developing increasingly advanced technology, which will have use in the 60 GHz and 5G spaces, among others.

17. As described in the Pre-Filing Report of the Proposed Monitor, dated June 2, 2020, Peraso remains engaged in litigation (the "**Ubiquiti Litigation**") with Ubiquiti Inc. and certain of its affiliates ("**Ubiquiti**"). Despite the ongoing Ubiquiti Litigation, Ubiquiti continues to purchase "X" Series Chipsets, which makes up the vast majority of Peraso chipset sales at this time. Subject to the outcome of the Ubiquiti Litigation, the Company anticipates a diversification in its chipset customer base through the end of the year.

18. In an effort to reach a consensual resolution of the Ubiquiti Litigation, Peraso and Ubiquiti agreed to engage in mediation with former Associate Chief Justice of Ontario Dennis O'Connor acting as the mediator (the "**July Mediation**"). All aspects of the mediation were conducted by Zoom videoconference, facilitated by Arbitration Place. Peraso and Ubiquiti each prepared and exchanged Mediation Briefs in advance, attended separate meetings with the mediator and the Monitor on July 3, 2020 and participated in full day mediation sessions on July 6 and 7, 2020 with continuing discussions thereafter to and including July 10, 2020. The Monitor attended and was actively involved throughout the course of the July Mediation. Unfortunately, the July Mediation concluded without a consensual resolution to the Ubiquiti Litigation.

19. During a case conference with Justice Hainey on July 13, 2020 a schedule was agreed with respect to Peraso's motion for a determination of whether the Licence Agreement was validly terminated by Peraso. A further case conference will be held on August 24, 2020 in advance of a two-day hearing on the motion scheduled for September 1 and 2, 2020.

20. Pursuant to the schedule that was agreed to by the parties and reflected in an Endorsement of Justice Hainey dated July 13, 2020, each of Peraso and Ubiquiti have been undertaking the steps required in the litigation process leading to the two-day hearing in September. The Monitor has advised the parties that it is available to assist in any aspect of that process or to help in resolving any issues that may arise, if requested.

21. On July 20, 2020, Great American Insurance Company ("**Great American**") purported to disclaim Peraso's directors and officers insurance policy due to the commencement of this CCAA proceeding. The Monitor understands that counsel to the Applicant intends to contact Great American with respect to the aforementioned purported disclaimer.

ACTUAL RECEIPTS AND DISBURSEMENTS

22. A summary of the Applicant's actual receipts and disbursements during the Reporting Period as compared to the cash flow forecast set out in Exhibit "B" to the Affidavit of Ronald Glibbery affirmed June 25, 2020 is set out in Appendix "**A**" to this Third Report.

23. The Applicant's actual combined net cash inflow was [redacted]

24. As at July 31, 2020, the Applicant had available cash of approximately [redacted]

UPDATED CASH FLOW FORECAST

25. The Applicant, with the assistance of the Monitor, has prepared the Cash Flow Forecast for the four (4) week period from August 1, 2020 to August 28, 2020 (the "**Cash Flow Period**") for the purpose of projecting the Applicant's estimated liquidity needs during the Cash Flow Period. A copy of the Cash Flow Forecast is attached as confidential Exhibit "F" to the August 10 Glibbery Affidavit. The Applicant is seeking an order sealing the Cash Flow Forecast.

26. The Cash Flow Forecast has been prepared by the Applicant using probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast. The Cash Flow Forecast reflects Management's estimates of receipts and disbursements on a weekly basis over the four (4) week Cash Flow Period.

27. The cash position of the Applicant as at August 1, 2020 was approximately [redacted] The cost of the CCAA proceeding will be paid from the Applicant's available cash as described below. The Applicant's Cash Flow Forecast estimates that during the Cash Flow Period, the Applicant will collect receipts of approximately [redacted] and will incur projected estimated disbursements of approximately [redacted]

28. The Applicant is seeking an extension of the stay of proceedings until August 28, 2020, [redacted]

29. The Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to Information supplied to it by certain key members of Management. Since the probable and hypothetical assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Monitor also reviewed the support provided by Management for the probable and hypothetical assumptions, and the preparation and presentation of the Cash Flow Forecast.

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

a) the probable and hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast;

b) as at the date of this Report, the probable and hypothetical assumptions developed by Management are not suitably supported and consistent with the restructuring plans of the Applicant or do not provide a reasonable basis for the Cash Flow Forecast; or

c) the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

31. As described in the Terms of Reference above, since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the probable and hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. In addition, the Monitor expresses no opinion or other form of assurance with respect to the accuracy of

financial information presented in the Cash Flow Forecast, or relied upon by the Monitor in preparing this Report.

32. The Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

CHAPTER 15 PROCEEDING

33. As described in the First Report of the Monitor, dated June 10, 2020, on June 3, 2020, the Monitor, in its capacity as the foreign representative of the Applicant, commenced an ancillary proceeding under chapter 15 of Title 11 of the *United States Bankruptcy Code* (the "**Bankruptcy Code**") in the United States Bankruptcy Court for the Southern District of New York (the "**US Court**") by filing a petition seeking an order recognizing the CCAA proceeding as a foreign main proceeding under section 1517 of the Bankruptcy Code and giving full force and effect to the Initial Order (as same may be amended or extended) in the United States (the "**Chapter 15 Petition**").

34. On the same date, the Monitor filed an emergency motion with the US Court seeking an interim order giving full force and effect to the Initial Order (as may be amended or extended) in the United States, including the Initial Order's stay of proceedings as to the Applicant's current and former directors, pending final disposition of the Chapter 15 Petition (the "**Provisional Relief Motion**"). On June 10, 2020, the US Court entered an order granting the Provisional Relief Motion.

35. A hearing on the Monitor's Chapter 15 Petition requesting an order: (i) recognizing the CCAA proceeding as a foreign main proceeding under section 1517 of the Bankruptcy Code; and (ii) giving full force and effect to the Initial Order (as may be amended or extended) in the United States (the "**Recognition Hearing**") was originally scheduled to be heard by the US Court on July 8, 2020. The Recognition Hearing was adjourned to July 22, 2020 on consent of all parties, due to the above-mentioned July Mediation with Ubiquiti, to ensure that neither Peraso nor Ubiquiti

would have to file any materials with the US Court, while they were focusing on a potential resolution to the Ubiquiti Litigation.

36. Subsequent to the completion of the July Mediation, on July 15, 2020, Ubiquiti filed with the US Court a limited objection and reservation of rights to the Chapter 15 Petition (the "**Limited Objection**"). Ubiquiti's Limited Objection did not dispute that the Applicant's CCAA proceeding is a foreign main proceeding and should be recognized by the US Court as such, nor did Ubiquiti dispute that the Monitor is the duly-appointed foreign representative. The Limited Objection did, however, dispute whether (a) the stay of proceedings should apply to present and former officers and directors of Peraso; and (b) the recognition order should provide that the Initial Order would be enforced along with any amendments or extensions as may be granted by this Court.

37. The Monitor, through its US counsel, filed a written reply to Ubiquiti's Limited Objection on July 19, 2020.

38. On July 22, 2020, the US Court held the Recognition Hearing and, after hearing submissions from all counsel, granted the relief sought by the Monitor as Foreign Representative and recognized Peraso's CCAA Proceedings as a foreign main proceeding and gave full force and effect to the Initial Order (as may be amended or extended). The US Court entered its order in respect of the above on July 23, 2020.

INTERIM FINANCING

39. As described in the August 10 Glibbery Affidavit, and as previously discussed in the Second Report, the Applicant has planned a two-phase interim financing process. The first phase covered a period of time that included the July Mediation and some weeks thereafter. Ubiquiti was not viewed as an appropriate interim lender during the first phase. The process contemplated that following the conclusion of the first phase, if the Applicant required additional interim financing,

it could commence the second phase of the interim lending process and/or a new search for an additional lender.

40. As discussed in the Second Report, and as approved by Order of this Court dated July 2, 2020, the Applicant entered into and borrowed funds under a credit agreement with Roadmap Capital General Partner Ltd., Roadmap Peraso LP III (U.S. and Offshore), and XCOM Labs, Inc. (collectively, the "**DIP Lenders**"). The credit agreement was entered into in order to finance the Applicant's working capital requirements and other general corporate purposes and capital expenditures, all as specifically provided for in the Debtor-in-Possession Credit Agreement between the Applicant and the DIP Lenders dated as of June 25, 2020 (the "**Initial DIP Agreement**").

41. During the Reporting Period, and as described in greater detail in Appendix A, [redacted]

42. The Applicant has concluded that it requires additional funding to continue these CCAA Proceedings. Accordingly, the Applicant, with the assistance of the Monitor, commenced the second phase of the interim financing process with the intention of entering into a second interim financing agreement. The process for accessing additional interim financing is currently underway and has not yet concluded.

43. The details of the Applicant's search for additional interim financing are set out in the August 10 Glibbery Affidavit. The Applicant, with the assistance of the Monitor, has reached out to more than [redacted] potential lenders. [redacted]

44. [redacted]

45. [redacted]

46. [redacted]

47. The Monitor understands that the Applicant plans to return to this Court within two weeks of the August 13, 2020 hearing date to provide the Court [redacted]

SEALING ORDER

48. The Applicant is requesting that the Confidential Documents be filed with the Court on a confidential basis and remain sealed pending further order of the Court.

49. The Monitor supports the Applicant's request. The Confidential Documents contain commercially sensitive information, including details related to the Applicant's search for interim financing that could, if publicly disclosed, be detrimental to the Applicant's efforts to obtain same, and impact the competitiveness of any financing terms the Applicant receives. The Confidential Documents also contain financial information related to the ongoing Ubiquiti Litigation, and the Monitor does not believe that making that information publicly available would be appropriate in the circumstances. The Monitor also does not believe that any stakeholder will be prejudiced if the documents are sealed.

EXTENSION OF THE STAY PERIOD

50. Pursuant to the Initial Order, the Stay Period is currently set to expire on August 14, 2020. The Applicant is currently requesting an extension of the Stay Period to August 28, 2020. [redacted]

51. The Monitor is of the view that an extension of the Stay Period is appropriate for the following reasons, among others:

a) management has focused on stabilization efforts since the commencement of the CCAA proceeding, maintaining business as usual to the extent possible and communicating with key creditors and stakeholders;

b) [redacted] and

c) the Applicant continues to operate in good faith and with due diligence since the date of the Initial Order.

RECOMMENDATION

52. For the reasons stated herein, the Monitor supports the relief sought by the Applicant, including an extension of the Stay Period.

All of which is respectfully submitted this 11th day of August, 2020.

ERNST & YOUNG INC.
Solely in its capacity as the Monitor of
Peraso Technologies Inc. and not
in its personal capacity

Per:

Brian M. Denega, CPA, CA, LIT, CIRP
Senior Vice President

Confidential Appendix “A”

To the ¢KÌNŘ Report of the Monitor

Dated !dzƎdzăű мм, 2020

<u>TO BE SEALED</u>

FROM PUBLIC RECORD PENDING

FURTHER ORDER OF THE COURT

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Proceedings commenced at Toronto

THIRD REPORT OF THE MONITOR ERNST & YOUNG INC.

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