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

FOURTH REPORT OF THE MONITOR

August 19, 2020

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FOURTH 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 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.

4. On August 11, 2020, the Court heard a motion brought by the Applicant and, among other things, extended the Stay Period to August 28, 2020.

PURPOSE

5. The purpose of this fourth report of the Monitor (the "**Fourth Report**") is to provide information to this Court about:

   a) the Applicant's operations and activities since the Third Report of the Monitor dated August 11, 2020 (the "**Third Report**");

   b) the receipts and disbursements of the Applicant from August 1, 2020 to August 14, 2020 (the "**Reporting Period**");

   c) approval of the Applicant's proposed second Debtor-in-Possession financing (the "**Second DIP Facility**"); and

   d) the Applicant's request to seal, the unredacted Second DIP Agreement, the unredacted August 19 Glibbery Affidavit (as defined below), and the unredacted Fourth Report (collectively, the "**Confidential Documents**").

TERMS OF REFERENCE

6. Capitalized terms used but not defined in this Fourth Report are defined in the Affidavit of Ronald Glibbery affirmed in connection with the Company's motion (the "**August 19 Glibbery Affidavit**").

7. In preparing this Fourth 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 Fourth 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.

8. Future oriented financial information referred to in this Fourth 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.

9. 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.

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

OVERVIEW OF THE APPLICANT

11. This Fourth Report should be read in conjunction with the August 19 Glibbery Affidavit for additional background with respect to the Applicant.

12. 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.

13. 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.

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

15. 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

16. Since the date of the Third 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.

17. 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.

18. 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. 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.

19. The Applicant has filed a motion for a determination of whether the License Agreement was validly terminated by Peraso, a key issue in the Ubiquiti Litigation. A hearing before this Court on the Applicant's motion is scheduled for September 1 and 2, 2020. A case conference in advance of the two-day hearing is scheduled for August 24, 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. With some slippage, that has essentially been in accordance with the schedule that was established. 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.

ACTUAL RECEIPTS AND DISBURSEMENTS

21. 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 F to the August 10 Glibbery Affidavit (as defined in the Third Report) is set out in Appendix "A" to this Fourth Report.

22. The Applicant's actual combined [redacted] was approximately [redacted] for the Reporting Period, which is approximately [redacted], as detailed in Appendix A.

23. As at August 14, 2020, the Applicant had available cash of approximately [redacted].

SECOND INTERIM FINANCING

24. The Applicant is seeking authorization from the Court to enter into and borrow funding of [redacted] under a credit facility from Roadmap Capital General Partner

Ltd., and Roadmap Peraso LP III (U.S. and Offshore) (collectively, the "**Second DIP Lenders**") 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 August 18, 2020 (the "**Second DIP Agreement**").

25. As detailed in previous Monitor's Reports, the Applicant has implemented a two-phase interim financing process. The first phase covered a period of time that included the July Mediation regarding the Ubiquiti Litigation, and some weeks thereafter. 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.

26. As discussed in the Second Report of the Monitor dated June 29, 2020, 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**").

27. As discussed in the Third Report, the Applicant concluded that it requires additional funding to continue these CCAA Proceedings and has commenced the second phase of the interim financing process. The Applicant's search for additional interim financing is described in the Third Report and the August 10 Glibbery Affidavit and remains ongoing.

28. The Applicant is currently in advanced discussions with certain potential interim lenders (the "**Potential Lenders**") with the goal of reaching an interim lending agreement or other form of funding with at least one of the Potential Lenders in the

coming days or weeks. An agreement with one of the Potential Lenders would likely provide Peraso with a longer-term solution to its liquidity constraints.

29. While the Applicant's discussions with the Potential Lenders continue, the Applicant requires cash to fund its ongoing operations pending a potential agreement with the Potential Lenders. [redacted]

30. To that end, the Applicant is seeking authorization from the Court to enter into the Second DIP Agreement. As discussed in the August 19 Glibbery Affidavit, the Second DIP Agreement is intended to provide the Applicant with short-term financing so that it can continue discussions with the Potential Lenders regarding a longer-term solution to the Applicant's liquidity constraints.

31. The Monitor has reviewed the terms of the Second DIP Agreement. Its terms are substantially similar to the terms of the Initial DIP Agreement that was previously approved by the Court. A summary of the key terms of the Second DIP Agreement is contained in the August 19 Glibbery Affidavit and a copy of the Second DIP Agreement is attached as Exhibit B thereto. The Applicant is seeking to seal the unredacted Second DIP Agreement.

32. In evaluating the Second DIP Agreement, in the Monitor's view, it is essential that the financing allows the Applicant to continue ordinary course operations while [redacted] and maintain flexibility to pursue any and all options within its restructuring process. The Monitor has reviewed the proposed interim financing with those overarching objectives in mind.

33. The Monitor has considered the factors set out in sub-section 11.2 (4) of the CCAA in respect of interim financing:

a) *the period during which the company is expected to be subject to proceedings under this Act;*

. The proposed interim financing will supplement the Applicant's available cash through the expiry of the Stay Period.

b) *How the company's business and financial affairs are to be managed during the proceedings;*

. As described above, the Monitor has reviewed the Applicant's Cash Flow Forecast, and understands the interim financing proceeds will be used to manage and operate the business in the normal course and fund certain costs associated with this CCAA proceeding and the Ubiquiti Litigation.

c) *Whether the company's management has the confidence of its major creditors;*

. The Monitor understands that Roadmap, the Applicant's primary creditor, has confidence in the Management of Peraso.

d) *Whether the loan would enhance the prospects of a viable compromise or arrangement being made in respect of the company;*

. The Monitor expects the proposed interim financing to assist the Company in its attempt to successfully restructure the business.

e) *The nature and value of the company's property; and*

. The Company primarily owns soft assets such as patents and other intellectual property which cannot be easily appraised. As such, and as described in the Third Report, [redacted] The Second DIP Lenders, as existing stakeholders, already have a strong understanding of the Company’s business operations and value.

f) *Whether any creditor would be materially prejudiced as a result of the security or charge.*

. As the Second DIP Facility is being advanced by certain funds associated with Roadmap (as defined in the Affidavit of Ron Glibbery, dated June 25), a significant shareholder and creditor of Peraso, in order to support the Applicant’s restructuring, the Monitor is of the view that creditors will not be materially prejudiced as a result of the proposed charge.

34. As described in the Third Report, [redacted]

35. [redacted]

SEALING ORDER

36. 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.

37. 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 [redacted], 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.

RECOMMENDATION

38. For the reasons stated herein, the Monitor supports the relief sought by the Applicant, including approval of the Second DIP Facility.

All of which is respectfully submitted this 19th 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 Fourth Report of the Monitor

Dated August 19, 2020

<u>TO BE SEALED</u>

FROM PUBLIC RECORD PENDING FURTHER ORDER OF THE COURT

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Proceedings commenced at Toronto

FOURTH REPORT OF THE MONITOR ERNST & YOUNG INC.

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