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

FIFTH REPORT OF THE MONITOR

August 27, 2020

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FIFTH 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 fifth report of the Monitor (the "**Fifth Report**") is to provide information to this Court about:

   a) the Applicant's operations and activities since the Fourth Report of the Monitor dated August 19, 2020 (the "**Fourth Report**");

   b) the receipts and disbursements of the Applicant from August 15, 2020 to August 21, 2020 (the "**Reporting Period**");

   c) the Applicant's revised cash flow forecast for the period from August 22, 2020 to September 4, 2020 (the "**Cash Flow Forecast**");

   d) the Applicant's request to seal the Applicant's cash flow forecast, the unredacted August 27 Glibbery Affidavit (as defined below), and the unredacted Fifth Report (collectively, the "**Confidential Documents**"); and

   e) the Applicant's request for an order that the Stay Period be extended to September 4, 2020.

TERMS OF REFERENCE

6. Capitalized terms used but not defined in this Fifth Report are defined in the Affidavit of Ronald Glibbery affirmed in connection with the Company's motion (the "**August 27 Glibbery Affidavit**").

7. In preparing this Fifth 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 Fifth 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 Fifth 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 Fifth Report should be read in conjunction with the August 27 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 Fourth Report, the Applicant, with the assistance of the Monitor, has maintained operations in the normal course of business. 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. The Monitor understands that Management encouraged employees to utilize their accrued vacation allotment during the end of August. The Monitor further

understands that, as a result of this request, 31 of the Applicant's employees have taken and/or are taking holidays during the second half of August, which has had a modest but positive effect on the Applicant's cash flows although it has impacted the Applicant's business operations.

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. The Monitor is advised by the Company that, subject to a positive 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 two-day hearing before this Court on the Applicant's motion is scheduled for September 1 and 2, 2020.

20. A second case conference in advance of the two-day hearing was held on August 24, 2020. During this case conference, it was determined the parties would attend an additional case conference with Justice Hainey on August 28, 2020 to determine, among other things, if the motion will proceed as scheduled on September 1 and 2, 2020. Peraso and Ubiquiti held different views as to whether the matter could or should proceed on those dates, in the manner proposed in the Notice of Motion filed by Peraso.

21. During the August 24, 2020 case conference, Justice Hainey requested that the Monitor consider, and provide an update to the Court at the August 28, 2020 case conference, as to the disagreements in certain facts presented by Ubiquiti and Peraso in connection with the Ubiquiti Litigation, and whether, in the Monitor's view, the motion could be dealt with by a hearing on September 1 and 2, 2020 based on the written record, or if any adjustments to the process or schedule may be required.

22. The Monitor's counsel Thornton Grout Finnigan LLP ("**TGF**") undertook a review of the Notice of Motion, all Affidavits filed by the parties and the position of each party in fully considering that issue. Counsel for the parties was advised that Frank Newbould Q.C., Counsel at TGF, would be undertaking the review and providing his views to the Monitor, in order for the Monitor to be in a position to provide meaningful input to the Court at the case conference on August 28, 2020. In conducting his review, Mr. Newbould read the materials filed in connection with the motion and engaged in separate discussions with counsel to Peraso and Ubiquiti. Mr. Newbould was also provided with a list of issues identified by counsel for Ubiquiti. The Monitor is in the process of finalizing this work with Mr. Newbould and remains in continuing discussions with counsel for the parties and will report to the Court on this matter at the case conference scheduled for August 28, 2020.

23. In regards to the Ubiquiti Litigation, the Monitor continues to encourage the parties to continue engaging in settlement discussions and is actively involved in all such efforts; however, as at the date of this Report, no resolution has been reached as between the parties.

24. As described in the August 27 Glibbery Affidavit, the Applicant has been engaged in an extensive effort to obtain additional interim financing. On August 20, 2020, the Court approved the Second DIP Agreement which agreement provided the applicant with a short-term financing solution while the Applicant's search and negotiations with respect to a longer-term financing solution continued. The Second DIP Lenders advanced to the Applicant the full amount of the credit facility under the Second DIP Agreement on August 20, 2020.

25. The Applicant remains in discussions with [redacted] potential interim lenders regarding a longer-term interim financing solution and has received a term sheet from [redacted] of these parties. [redacted]

26. [redacted]

ACTUAL RECEIPTS AND DISBURSEMENTS

27. 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 of the Monitor, dated August 11, 2020) is set out in Appendix "A" to this Fifth Report.

28. The Applicant's actual combined net cash inflow was approximately [redacted] for the Reporting Period, which is approximately [redacted] better than projected, primarily due to the receipt of funds related to the Second DIP Agreement (as defined in the Fourth Report), as detailed in Appendix A.

29. As at August 21, 2020, the Applicant had available cash of approximately [redacted]

UPDATED CASH FLOW FORECAST

30. The Applicant, with the assistance of the Monitor, has prepared the Cash Flow Forecast for the two (2) week period from August 22, 2020 to September 4, 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 D to the August 27 Glibbery Affidavit. The Applicant is seeking an order sealing the Cash Flow Forecast.

31. 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 two (2) week Cash Flow Period.

32. The cash position of the Applicant as at August 22, 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]

33. [redacted]

34. The Applicant is seeking an extension of the stay of proceedings until September 4, 2020, [redacted]

35. 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.

36. 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.

37. 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.

38. 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.

SEALING ORDER

39. 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.

40. 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 and current liquidity 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

41. Pursuant to the Initial Order, the Stay Period is currently set to expire on August 28, 2020. The Applicant is currently requesting an extension of the Stay Period to September 4, 2020. [redacted]

42. 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

43. For the reasons stated herein, the Monitor supports the relief sought by the Applicant.

All of which is respectfully submitted this 27th 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 Fifth Report of the Monitor

Dated August 27, 2020

TO BE SEALED

FROM PUBLIC RECORD PENDING FURTHER ORDER OF THE COURT

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Proceedings commenced at Toronto

FIFTH REPORT OF THE MONITOR
ERNST &YOUNG INC.

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