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

SIXTH REPORT OF THE MONITOR

September 2, 2020

Thornton Grout Finnigan LLP
3200 – 100 Wellington Street West
TD West Tower, Toronto-Dominion Centre
Toronto, ON M5K 1K7

D.J. Miller (LSO# 34393P)
Email: djmiller@tgf.ca

Andrew Hanrahan (LSO# 78003K)
Email: ahanrahan@tgf.ca

Tel: 416-304-1616
Fax: 416-304-1313

Lawyers for the Monitor, Ernst & Young Inc.

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

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

PURPOSE

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

   a) the Applicant's operations and activities since the Fifth Report of the Monitor dated August 27, 2020 (the "**Fifth Report**");

   b) the receipts and disbursements of the Applicant from August 22, 2020 to August 28, 2020 (the "**Reporting Period**");

   c) the Applicant's revised cash flow forecast for the period from August 29, 2020 to October 2, 2020 (the "**Cash Flow Forecast**");

   d) approval of the Applicant's proposed third Debtor-in-Possession financing (the "**Third DIP Facility**");

   e) the Applicant's request to seal the Applicant's cash flow forecast, the unredacted September 2 Glibbery Affidavit (as defined below), and the unredacted Sixth Report (collectively, the "**Confidential Documents**"); and

   f) the Applicant's request for an order that the Stay Period be extended to October 2, 2020.

TERMS OF REFERENCE

6. Capitalized terms used but not defined in this Sixth Report are defined in the Affidavit of Ronald Glibbery affirmed in connection with the Company's motion (the "**September 2 Glibbery Affidavit**").

7. In preparing this Sixth 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 Sixth 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 Sixth 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 Sixth Report should be read in conjunction with the September 2 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 Fifth 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. 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.

18. The Applicant filed a motion for a determination of whether the License Agreement was validly terminated by Peraso, a key issue in the Ubiquiti Litigation. On August 28, 2020 at a case conference with Justice Hainey, it was determined the two-day hearing would proceed as scheduled on September 1 and 2, 2020. On September 1, on the basis the parties are close to finalizing a settlement of the matters at issue (the "**Litigation Settlement**"), Ubiquiti and Peraso jointly requested an adjournment of the September 1 and 2, 2020 hearing.

19. [redacted]

20. On September 2, 2020 a non-binding settlement term sheet (the "**Settlement Term Sheet**") with respect to the Ubiquiti Litigation and commercial terms relating to certain manufacturing rights was agreed to by Peraso and Ubiquiti. The Settlement Term Sheet includes agreement on the consideration to be paid to Peraso [redacted] and other key terms. The Settlement Term Sheet contains an agreed structure and commercial terms for the Litigation Settlement, and provides that the parties agree to proceed in good faith to complete the necessary documentation and implementation of a settlement as contemplated in the Settlement Term Sheet, to be evidenced by a settlement agreement that is subject to approval of the Court. The Settlement Term Sheet recognizes that certain steps must be completed in order to finalize the settlement,

including, but not limited to: (i) finalizing the settlement agreement and certain ancillary agreements between the parties that form part of the settlement, including a License and Manufacturing Agreement, the latest draft of which is attached to the Settlement Term Sheet; (ii) reaching an agreement on certain matters relating to the existing purchase orders issued by Ubiquiti or its affiliates or designees to Peraso or its designees for certain components; and (iii) obtaining certain third-party consents necessary to implement key aspects of the Litigation Settlement.

21. In connection with the Litigation Settlement, Ubiquiti and Peraso have agreed to a debtor-in-possession financing agreement (the "**Third DIP Agreement**"), which is discussed in further detail below. The Third DIP Agreement is intended to fund Peraso's operations while the definitive documents are finalized, the third-party consents are obtained and the remaining [redacted] is paid to Peraso. The Monitor understands that the Applicant and Ubiquiti anticipate these third-party consents will be obtained and the Litigation Settlement finalized prior to September 30, 2020. The Monitor will continue to work closely with the parties to ensure that the Litigation Settlement can be completed within that time frame.

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 D to the August 27 Glibbery Affidavit (as defined in the Fifth Report) is set out in Appendix "**A**" to this Sixth Report.

23. The Applicant's actual combined net cash outflow was approximately [redacted] for the Reporting Period, which is approximately [redacted] better than projected, primarily due to timing variances which Management expects to reverse in the coming weeks, as detailed in Appendix A.

24. As at September 1, 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 five (5) week period from August 29, 2020 to October 2, 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 E to the September 2 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 five (5) week Cash Flow Period.

27. The cash position of the Applicant as at August 29, 2020 was approximately [redacted]. The cost of the CCAA proceeding will be paid from the Applicant's available cash and certain interim financing as described below. The Applicant's Cash Flow Forecast estimates that during the Cash Flow Period, the Applicant will collect receipts (including under the Third DIP Agreement) of approximately [redacted] and will incur projected estimated disbursements of approximately [redacted] The Cash Flow Forecast projects that the Applicant will have sufficient liquidity during the proposed Stay Period based on its existing cash resources and the interim financing contemplated.

28. The Applicant is seeking an extension of the stay of proceedings until October 2, 2020, which is expected to provide Peraso with sufficient time to finalize the Litigation Settlement and continue to work on its restructuring plan.

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.

THIRD INTERIM FINANCING

33. The Applicant is seeking authorization from the Court to enter into and borrow $2.5 million under a credit facility from Ubiquiti Networks Canada Inc. (the "**Third DIP**

Lender"), an affiliate of Ubiquiti, 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 Third DIP Agreement between the Applicant and the Third DIP Lender dated as of September 2, 2020.

34. The $2.5 million advanced under the Third DIP Agreement, plus interest will be credited against the [redacted] referred to above which is payable by Ubiquiti to Peraso pursuant to the Litigation Settlement.

Background re First and Second Interim Financing

35. 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.

36. 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 "**First 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 First DIP Lenders dated as of June 25, 2020 (the "**First DIP Agreement**").

37. As discussed in the Third Report of the Monitor, dated August 11, 2020 (the "**Third Report**"), the Applicant concluded that it requires additional funding to continue these CCAA Proceedings and 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 Fourth Report of the Monitor, dated August 19, 2020 (the "**Fourth Report**").

38. As discussed in the Fourth Report and as approved by Order of this Court dated August 20, 2020 the Applicant entered into and borrowed funds under a credit agreement with Roadmap Capital General Partner Ltd. and Roadmap Peraso LP III (U.S. and Offshore) (collectively, the "**Second DIP Lenders**"). That 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 August 18, 2020 (the "**Second DIP Agreement**").

39. The Second DIP Agreement was intended to provide the Applicant with short-term financing while it continued discussions with potential lenders regarding a longer-term solution to the Applicant's liquidity constraints.

<u>Monitor's Assessment of the Third DIP Agreement</u>

40. The Applicant is currently seeking authorization from the Court to enter into the Third DIP Agreement. As discussed in the September 2 Glibbery Affidavit, the Third DIP Agreement is intended to provide the Applicant with liquidity to continue operating while Peraso and Ubiquiti work to obtain the required third-party consents and complete the Litigation Settlement.

41. The Monitor has reviewed the terms of the Third DIP Agreement, a summary of which is contained in the September 2 Glibbery Affidavit. A copy of the Third DIP Agreement is attached as Exhibit D thereto.

42. In evaluating the Third DIP Agreement, in the Monitor's view, it is essential that the financing allows the Applicant to continue ordinary course operations while continuing to finalize the Litigation Settlement within the CCAA proceeding and maintaining absolute 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.

43. 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 fund the Applicant's activities through the expiry of the requested extension 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 obtaining the required third-party consents necessary to conclude the settlement of the Ubiquiti Litigation. The Third DIP Agreement provides Ubiquiti with certain rights and information with respect to the company's restructuring activities. The Monitor's assessment and recommendations contained in this Report are predicated on its understanding from Ubiquiti that it is committed to completing the settlement described in the September 2 Glibbery Affidavit and above, and that failing such a settlement taking place Ubiquiti will support the company's efforts to maximize value for its stakeholders, subject to this Court's approval of the company's intended course of action.

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. Further, the Monitor understands Roadmap has consented to the Third DIP Agreement receiving security in priority to the First DIP Agreement and the Second DIP Agreement.

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, subject to the comments noted in (b) above.

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. The Third DIP Lender, as an existing customer and minority shareholder, has 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 First DIP Lenders and the Second DIP Lenders have consented to the Third DIP Agreement receiving security in priority to its loans, the Monitor is of the view that creditors will not be materially prejudiced as a result of the proposed charge.

44. As described in the Fifth Report, [redacted]

[redacted]

SEALING ORDER

45. 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.

46. 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

47. Pursuant to the Initial Order, the Stay Period is currently set to expire on September 4, 2020. The Applicant is currently requesting an extension of the Stay Period to October 2, 2020. During this period, the Applicant and Ubiquiti intend to (i) finalize and obtain Court approval of the Litigation Settlement; and (ii) continue to develop its restructuring plan.

48. 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) Management and Ubiquiti have worked diligently to reach a settlement of the Ubiquiti Litigation and are committed to taking all steps necessary to conclude the settlement;

c) Management has worked diligently to obtain interim financing since the commencement of the CCAA proceeding; and

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

RECOMMENDATION

49. For the reasons stated and subject to the issues noted herein, the Monitor supports the relief sought by the Applicant.

All of which is respectfully submitted this 2nd day of September, 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 Sixth Report of the Monitor

Dated September 2, 2020

<u>TO BE SEALED</u>

FROM PUBLIC RECORD PENDING FURTHER ORDER OF THE COURT

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.**

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced at Toronto

SIXTH REPORT OF THE MONITOR ERNST & YOUNG INC.

Thornton Grout Finnigan LLP
3200 – 100 Wellington Street West
TD West Tower, Toronto-Dominion Centre
Toronto, ON M5K 1K7

D.J. Miller (LSO# 34393P)
Email: djmiller@tgf.ca

Andrew Hanrahan (LSO# 78003K)
Email: ahanrahan@tgf.ca

Tel: 416-304-1616
Fax: 416-304-1313

Lawyers for the Monitor, Ernst & Young Inc.