

ASX Release | Chapmans Limited (ASX:CHP)

Chapmans Secures Amended GPU.One Term Sheet and Capital Raise

Highlights

- Chapmans and GPU.One have executed an amended term sheet for a reduced investment by Chapmans in GPU.One
- Chapmans has received clearance from the ASX to proceed with the investment subject to binding documentation being executed
- Chapmans will raise approximately AUD\$4.552 million for the GPU.One investment and working capital
- Chapmans' directors will invest a further AUD\$750,000 on the same terms subject to shareholder approval
- GPU.One is an established and profitable data processing and cryptocurrency mining company based in Canada

16 April 2018: Chapmans Limited (ASX:CHP) ("Chapmans" or "the Company") provides the following update in regards to its announcement on 26 March 2018 regarding an investment in Canadian data processing centre and cryptocurrency mining company, GPU.One, and a capital raise of \$7.34 million ("Previous Announcement").

Amended Term Sheet with GPU.One

Following correspondence with the Australian Securities Exchange (ASX), Chapmans has reduced the size of its proposed investment in GPU.One and will now be investing CAD2.5 million (approximately AUD\$2.55 million) for a strategic 19.99% stake in GPU.One on a fully diluted basis.

The ASX has confirmed that under the revised terms, Chapmans will be able to proceed with the investment and no shareholder approval will be required for the purposes of ASX Listing Rule 11.1. The investment is now subject to only final binding documentation being executed.

About GPU.One

GPU.One is an established and profitable data processing and cryptocurrency company focused on mining leading cryptocurrencies including Bitcoin, Ethereum, and Litecoin. From GPU.One's incorporation in July 2017 to 31 December 2017, GPU.One recorded a loss of AUD\$179,349 (applying a CAD:AUD conversion rate of 1:1.02). GPU.One was in an establishment phase during this period and since then, GPU.One has recorded a profit of AUD\$301,000 (applying a CAD:AUD conversion rate of 1:1.02) for the financial year to date (1 January 2018 to 31 March 2018). The figures referred to in the preceding paragraph have been extracted from the unaudited accounts for GPU.One.

GPU.One has facilities in Canada, providing it with a stable and well regulated operating environment with access to sustainable low-cost power. GPU.One has strong fundamentals and access to low-cost hydroelectric power with existing substation infrastructure located near its facilities. It also benefits from a naturally low-temperature environment and access to long-term low-cost properties well suited for data processing and cryptocurrency operations.

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GPU.One uses proprietary hardware and software technologies that give it a unique competitive advantage and has strong partnerships with the world's largest ASIC and GPU technology providers. In the event of a significant long-term reduction in cryptocurrency values rendering cryptocurrency mining uncommercial, its facilities can be used as a strictly data processing centre only, mitigating much of the risk commonly associated with cryptocurrency investments.

Revised Capital Raise

Chapmans has also reduced the size of the capital raise referred to in the Previous Announcement to approximately AUD\$4.552 million ("Revised Capital Raise").

This is in part due to the reduced investment size and concerns expressed by the ASX which are set out below:

- *In ASX's opinion, the Notice for Resolution 1 did not properly disclose the intended use of the funds raised by the Tranche 1 Shares, in breach of Listing Rule 7.3.6. Accordingly, under Listing Rule 14.6, that resolution was not effective for the purposes of approving the issue of the Tranche 1 Shares under Listing Rule 7.1. ASX's opinion has been formed on the basis that CHP had executed the Binding Term Sheet for the Proposed Investment prior to the date of the Notice and, in ASX's opinion, CHP fully intended to issue the Tranche 1 Shares for the purpose of completing the Proposed Investment.*
- *In order to issue the Tranche 2 Shares, CHP was relying on the uplift in its placement capacity under Listing Rule 7.1 that a valid approval of the issue of the Tranche 1 Shares under that rule would have delivered. As a consequence of the matters referred to in the previous paragraph, CHP can no longer rely on that uplift for the purposes of calculating its placement capacity under Listing Rule 7.1. In any event, CHP's capacity to issue the Tranche 2 Shares under Listing Rule 7.1 should have been tested at the time it entered into the agreement to issue those shares. As CHP had entered into that agreement prior to the actual issue of the Tranche 1 Shares, the Tranche 1 Shares should not have been factored into its placement capacity under variable "A" in Listing Rule 7.1.*

The ASX was concerned that Chapmans would not have had sufficient placement capacity to complete the issue of shares contemplated under previously announced capital raise.

The Revised Capital Raise of AUD\$4.552 million consists of:

- A raising of AUD\$1.59 million, pursuant to which 198,750,000 shares will be immediately issued at \$0.008 under Chapmans' 15% placement capacity ("Equity Raise"); and
- A raising of AUD\$2.962 million. This raising is structured as simple unsecured loans with each loan having an interest rate of 8% p.a. and repayment date of 30 June 2018. It is intended that, subject to shareholder approval, these loans will be converted to equity on the same terms as the shares issued pursuant to the Equity Raise.

The first tranche of shares issued under the Equity Raise are expected to be issued on or around 16 April 2018. Each share issued under the Equity Raise (and any share issued pursuant to conversion of the loans) will be issued with a free attaching option on a 1:1 basis, exercisable at \$0.015 per share on or before the 30th of November 2021 ("Attaching Options"). Chapmans' directors have committed to invest on the same terms a further AUD\$750,000 in the Company. The Attaching Options and the directors' investment are subject to shareholder approval.

It is intended that proceeds of the Revised Capital Raise will be applied in part to fund the investment in GPU.One with the remaining proceeds being used to fund working capital requirements.

For avoidance of doubt, the previously announced Lead Manager, Broker and Corporate Advisory Mandate with CPS Capital Group Pty Ltd (“CPS”) (“the Mandate”) is engaged and Chapmans notes that pursuant to the terms and conditions of the Mandate, CPS will be paid a management and placement fee of 6%.

Under the Mandate and subject to shareholder approval, Chapmans will issue CPS and/or its nominees up to 300 million options exercisable at \$0.015 per share on or before the 30th of November 2021 (“Corporate Options”). In addition, and also subject to shareholder approval, Chapmans will issue up to 20 options for every \$1 raised to brokers that introduced investors to the placement (“Broker Options”).

Further details of the terms of the Attaching Options, Corporate Options and Broker Options will be set out in the relevant notice of meeting.

Chapmans Executive Director Anthony Dunlop: “We are pleased to have executed this amended term sheet and completed our extensive due diligence with GPU.One. We received very strong investor support for this opportunity and look forward to completing the investment upon execution of the relevant binding documentation. We are similarly pleased to have finally been given the all-clear to proceed with the Revised Capital Raise and investment from the ASX.”

Ends

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Cautionary Statement – Cryptocurrency Related Business Activities

The Company notes the following in relation to cryptocurrency-related business investments:

- investment into cryptocurrency related businesses are high risk in nature as cryptocurrencies are currently highly speculative;
- cryptocurrency-related businesses have a number of other risk factors, including but not limited to the following:
 - the development of new regulatory framework involving cryptocurrencies;
 - cryptocurrencies and cryptocurrency exchanges have raised regulatory issues across multiple jurisdictions; and
 - in many countries, cryptocurrencies are subject to anti-money laundering and counter-terrorism funding legislations; and
- for its blockchain and cryptocurrency-related business investments, Chapmans has and will always endeavour to use the best of its ability to ensure that Chapmans and its subsidiaries comply with relevant local in-country regulatory requirements.

About Chapmans Limited

Chapmans Limited (ASX:CHP) is an ASX-listed diversified investment company engaged in special situation investments across a diverse range of industries, with a focus and expertise in the mobile and advanced industrial technology sectors. The Company seeks to be an active strategic investor in high growth areas of the market and to identify and work with emerging high growth companies. Chapmans' investment philosophy and approach are based on a unique mix of high conviction and special situation features, characterised by advisory and equity investments structured around specific events and assets for both public and large private corporates.

To learn more, please visit: www.chapmansltd.com