

6 April 2018

Johanna O'Shea
Adviser, Listings Compliance (Sydney)
ASX Compliance Pty Ltd
Exchange Centre
20 Bridge Street
Sydney NSW 2000

By email: johanna.o'shea@asx.com.au

Dear Johanna

Chapmans Limited ("CHP")

In response to your letter dated 28 March 2018, CHP provides the following information (employing the same numbering as set out in your letter):

1. Please see enclosed "**Enclosure 1 – CHP Company Register**".
2. Please see enclosed "**Enclosure 2 – Proposed Subscribers**".
3. Please see enclosed "**Enclosure 3 – Broker Options**".
4. As is customary with any fundraising activities involving a broker, CHP approached CPS and entered into a mandate with CPS, which was an exclusive Lead Manager, Broker and Corporate Advisory Mandate that set out the terms and conditions of the fundraising and the role that CPS would play in the Proposed Investment. A copy of the Mandate has already been provided to you via email. Prior to entering into the Mandate, members of the board of CHP confidentially presented to CPS and provided CPS with information on CHP's background, business activities and current investment opportunities, including the opportunity to invest in GPU.One. A copy of the presentation provided to CPS was attached to the Announcement of 26 March 2018. The parties entered into the Mandate following the presentation, and from this point onwards, as is clearly set out in the Mandate, CPS was responsible for marketing to potential investors.
5. Please see enclosed "**Enclosure 5 – Bank Statements**". We note that we were only able to provide bank account statements illustrating money received in CHP's account. The remainder of the allottees of the placement either deposited the subscription funds in the CPS bank account and/or provided binding subscription commitments.
6. Legal due diligence was conducted by McCarthy Tetrault, a leading Canadian law firm. Specifically, the due diligence included:
 - a) **Public Searches.** Counsel conducted the following public, non-consent due diligence searches in Québec, Ontario or the federal jurisdiction, as applicable, for GPU.One and its wholly-owned subsidiaries, GPU.One Enterprise Inc. ("**OpCo**") and 9366-5230 Québec Inc.

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("LandCo"): corporate registry; federal bankruptcy and insolvency, litigation; RDPRM (personal property register), and Bank Act. These searches are conducted to identify publicly available corporate information, any potential claims or judgments pursuant to bankruptcy, insolvency or litigation matters, and the security interests registered against the companies' personal property.

- b) **Corporate Record Review.** Counsel reviewed certain materials from the minute books for GPU.One, OpCo and LandCo to confirm that their share ownership and other corporate records matched the term sheet for the Proposed Transaction, and the disclosure schedules from the draft transaction. Counsel also reviewed all of the transfer documents in connection with the January 2017 reorganization of GPU.One, OpCo and LandCo in order to confirm the shareholdings and ownership structure of GPU.One and its subsidiaries.
- c) **Real Property Agreements.** Counsel reviewed offers to purchase three properties located in Québec, and conducted basic confirmatory real property searches to identify the reported owner of the property and any encumbrances registered against title.
- d) **Other Material Agreements.** Counsel reviewed other material agreements (employment agreements, option agreements, goods and services agreements and insurance policies) to identify any obligations or termination rights that would be triggered by the Proposed Transaction, and for general conformity with the business as described by GPU.One.

Technical due diligence was conducted by Alex Taylor of bitpos.com, a leading blockchain and cryptocurrency expert (LinkedIn profile available at <https://www.linkedin.com/in/alexstayl0r/>). Specifically, the due diligence included:

- a) Examination of the claims made by GPU.One pertaining to the forward-looking performance of both ASIC and GPU infrastructure, and aligning this to the proposed financial performance over the next six, twelve and twenty-four months;
- b) Performance of detailed technical interviews with GPU.One staff, to examine the underlying intellectual property created and possessed by GPU.One that allows them to deliver the products as detailed;
- c) Detailed technical review of the security systems implemented and maintained by GPU.One, including a review of the cryptocurrency security and safety systems operated by GPU.One;
- d) Independent review of proposed GPU.One cryptocurrency hardware purchases, to ascertain the veracity of claims made to return on investment, and examination of the risk factors involved;
- e) Examination of the GPU-based data-processing market for AI research, including preparation of a statement on base-line revenue that can be realised through the direct-client leasing of infrastructure for external tasks;
- f) Detailed analysis of platform management tooling created by GPU.One to design, deploy and operate a cryptocurrency data centre environment, including analysis of claims pertaining to the market advantage claimed by GPU.One relating to their ability to operate with higher efficiency on commodity hardware than their direct competition;
- g) Combined interviews with technical and financial staff at GPU.One to analyse the methods they have used to mitigate risk of operations through the creation of complementary business lines, and the methodology to rapidly retask infrastructure to the most profitable operation;
- h) Analysis of the underlying cryptocurrency market to examine statements made by GPU.One relating to anticipated financial returns of their hardware catalogue;

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- i) Through direct access to GPU.One internal systems, an evaluation was performed on their systems and methods created to provide operational oversight, perform performance tuning in real-time, and to define and realise operational efficiencies for tasks to be performed by controlled hardware. This included, but was not limited to, an evaluation of the GPU.One “undervolting control” platform, their HVAC and power management scheme, and their power allocation methodology;
 - j) An in-depth analysis of GPU.One’s AI data processing platform was performed, to ascertain the nature of the methods and tools developed to allow the creation of discrete units of work from larger tasks, and to allocate them to a particular array of hardware. This analysis included both a technical analysis of the underlying system, and an analysis of the veracity of claims pertaining to the viability of this service in a competitive landscape (e.g. Amazon GPU Instances, Microsoft’s Azure environment); and
 - k) A review of the electricity contracts held by GPU.One with Hydro-Quebec, and the positive impact of low energy pricing on GPU.One’s ability to compete in both the cryptocurrency mining space, and the AI data processing space.

Financial and accounting due diligence was also conducted which included:

- a) Detailed review and analysis of historical financial statements;
- b) Detailed review of capital contributions to date; and
- c) Detailed review and analysis of financial modelling and forecasts including:
 - i. Business case analysis and modelling for data processing operations including supply chain and procurement, capital expenditure, revenues, operating expenditure and yield analysis;
 - ii. Business case analysis and modelling for mining operations including supply chain and procurement, capital expenditure, revenues, operating expenditure and yield analysis;
 - iii. Mining and treasury analysis including policies and procedures for algorithmic exchange access and currency selection, off-boarding and security of capital;
 - iv. Breakeven sensitivity analysis for Bitcoin and other leading currencies;
 - v. Asset lifecycle management and secondary revenues analysis for servers utilised for data processing and mining operations including remarketing and replacement cycles; and
 - vi. Valuation methodology analysis for comparable listed data processing and mining operations.

7. Please see enclosed **"Enclosure 7 – GPU.One Financials"**. We note that as GPU.One was founded in 2017, we are only able to provide the ASX with financials commencing in 2017.

8. The objective criteria consists of a combination of data processing and mining operational capacity expressed as Megawatt Capacity, Revenues and EBITDA. These are to be clearly set out in the definitive Subscription Agreement to be drafted and executed between the parties.

9. In response to question 9:

- a) The Term Sheet was not announced to the market when it was entered into on 16 February 2018, because under Listing Rule 3.1A.1, Listing Rule 3.1 does not apply to particular confidential information if the information concerns an incomplete proposal or negotiation. CHP took the view (and remains of the view) that Term Sheet was an incomplete proposal as amongst other things, it contemplated further documentation. The Term Sheet recorded the terms and conditions of the parties' relationship at the time with the intention to execute final binding documentation at a later stage.
- b) Information regarding the Term Sheet was not included in the Notice as CHP considers that it disclosed sufficient information regarding the proposed use of funds in relation to Resolution 1.

Listing Rule 7.3.6 requires that the intended use of funds raised be included in the Notice. The Notice states that the Company intended to use the funds raised under the placement for investment capital and to enter into new investment opportunities. There were numerous investments being considered by the directors of CHP to which proposed funds could be applied. Whilst Thomson Geer (Australian legal counsel) has not been directly involved in negotiating each of these investments, they have seen correspondence (for example from overseas advisors) and drafts of transaction documentation concerning these investment opportunities and have separately confirmed this to you. In any event, by referencing a specific deal this would have limited CHP's scope to use the funds raised and would have been misleading. As the ASX is aware, CHP is a diversified investments company and so from time to time, general fundraising mandates from shareholders are essential to ensuring the board can act on investment opportunities expeditiously. CHP has sought such mandates from time to time and ASX has not previously expressed an issue with this approach, and did not express an issue with the disclosures in the Notice when the Notice was submitted for ASX approval.

- c) Listing Rule 7.3 sets out the information required for shareholders to approve an agreement to issue shares in the future under Listing Rule 7.1. Listing Rule 7.3.6 requires that the intended use of funds raised be included in the notice. The Notice states that the Company intended to use the funds raised under the placement for investment capital and to enter into new investment opportunities. The Notice was approved by the ASX in an email from Stephanie Yong on 16 February 2018 at 6:53am.

If CHP were to apportion funds raised pursuant to Resolution 1 to the Proposed Investment, CHP would be using the funds in a consistent manner with its disclosures in the Notice, given that application of funds to the Proposed Investment would constitute using funds for a new investment opportunity. As alluded to in the response to 9b), the fact that the disclosures made in relation to Resolution 1 stated that funds raised pursuant to that resolution would be used for funding of future investment opportunities gives CHP greater flexibility to use the funds raised for any investment opportunities it is considering. For the reasons above, CHP considers it satisfied the requirements in Listing Rule 7.3.6. Thomson Geer has also separately confirmed to you that it agrees with CHP's assessment based on instructions given to them and the information they have been provided with.

- d) For the reasons stated in 9c) and noting that CHP is subject to continuous disclosure obligations, CHP considers it met its general law obligation to include such material to inform security holders of the matters to be considered and enable them to make a properly informed judgement. Thomson Geer has also separately confirmed to you that it agrees with CHP's assessment based on instructions given to them and the information they have been provided with.
- e) For the reasons referred to above, the directors of CHP cannot see any reason why the shareholder approval to Resolution 1 of the Notice should be regarded as not effective. Thomson Geer has also separately confirmed to you that it agrees with CHP's assessment based on instructions given to them and the information they have been provided with.

10. Please see enclosed "**Enclosure 10 – Placement Capacity**".

11. Please see enclosed "**Enclosure 11 – Vote Breakdown**".

12. As discussed, this analysis will be provided to you separately and will contemplate a revised deal structure.

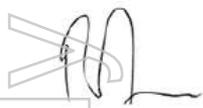
13. CHP may consider disposing some of its investments in the near future. As at the date of this letter, CHP has not made any decision to divest any of its existing investments.

14. Resolution 4 of the Notice of Meeting was withdrawn on the date of the Extraordinary General Meeting, ie. 21 March 2018. Resolution 4 of the Notice dealt with shareholder approval for the issue of 45,000,000 shares to fund part of CHP's investment in Securrency. This form of funding was no longer required as CHP had successfully procured loans to fund its payment obligations for the Securrency investment. This therefore rendered the need to raise specific equity capital (for the purpose of funding CHP's investment in Securrency) by way of an issue of shares unnecessary, and as a result, Resolution 4 was dropped and shareholder approval was not required or obtained (particularly since CHP would be able to apportion funds raised pursuant to Resolution 1 to any Securrency obligations (if required)).

The loans procured by CHP were simple loans each having an interest rate of 8%, being unsecured and having a repayment date of 30 June 2018. None of the lenders are related parties of CHP and the Loan Agreements were made on commercial terms. The total amount of the loans is \$743,500.

15. As noted in response to question 14, CHP had obtained loans to help fund part of its investment in Securrency. Furthermore, as already disclosed to you and the ASX, CHP may use part of the proceeds raised pursuant to the Resolution 1 approval to help meet its commitments in investing in Securrency. CHP may also obtain further debt financing to fund its investment in Securrency should this become necessary. CHP will consider what blend of fundraising activities would be best suited to meet this obligations at the appropriate time, having regard to the best interests of the CHP.
16. CHP intends to rely on the 'cleansing prospectus' provisions set out in section 708A(11) of the Corporations Act to allow secondary trading of any shares issued under the capital raise and/or in relation to any options issued. Options will likely be issued under a disclosure document compliant with Part 6D.2 of the Corporations Act.
17. CHP disagrees with the claim that it had stated that the funds were for a capital raising of up to \$5 million to be used for "the stepped investment in Securrency and other current investments." Mr Dykes contends that this is a misquotation and he did not make such a statement. As noted in a previous email to you, CHP considers that there may have been a misunderstanding when Mr Dykes spoke to you. Mr Dykes had communicated that the funds were to be applied for deployment in investments including potentially Securrency, Syn Dynamics Australia and 20Four (companies referenced in CHP's previous announcements). He states that he also mentioned the funds raised would be deployed in other investments. This was in response to a question you had asked Mr Dykes on whether the funds would be applied to the 'oil plant investment' to which Peter replied 'no' and clarified that the funds were to be deployed in other investments. This was not a reference exclusively to existing investments but rather a reference to other new investments as well. Mr Dykes notes that he said this on the basis that you would assume this reference was to new investments given the disclosures made in relation to Resolution 1 of the explanatory memorandum/notice of meeting for the EGM held on 21 March 2018. Section 1.2(vi) states that new funds will be used for new investment opportunities. Additionally, when no further questions were asked, Mr Dykes has assumed that you were satisfied with this response and you did not enquire further about the nature of the new investments. It was in this context that Mr Dykes made no mention of GPU.One.
18. The inference made by the ASX, that CHP disclosed details of the Proposed Investment to the AFR on 26 March 2018 before it was released on MAP is completely incorrect. After seeing and reading the article in the AFR on the morning of the article, CHP's lawyers telephoned the directors of CHP to inform them that there was an article in the AFR setting out information on the Proposed Investment. CHP was surprised to learn of this and informed their lawyers that they were not aware of the article and were not aware of the article's source. CHP is still not aware of the source of the article and has not taken any further investigations to identify the source. The AFR did not call or consult CHP for any comment or information for the article, and if further validation of this is required, CHP invites you to contact the journalist who wrote and published the story.

Yours Sincerely



Peter Dykes
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28 March 2018

Mr Tim Flavin
Partner
Thomson Geer
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1 O'Connell Street
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By email: tflahvin@tglaw.com.au

Dear Mr Flavin

Chapmans Limited ("CHP")

ASX Limited ("ASX") refers to CHP's announcement entitled "Chapmans Successfully Raises \$7.34M" lodged on the ASX Market Announcements Platform ("MAP") and released at 9:47 am on 26 March 2018 (the "Announcement"), disclosing information pertaining to, among other matters:

- A. A \$7.34 million capital raising through CPS Capital Group Pty Ltd ("CPS") by way of the issuance of 917,500,000 ordinary shares at \$0.008 per share ("Placement Shares"). Of these shares, 625,000,000 ordinary shares ("Tranche 1 Shares") are purportedly issued pursuant to Resolution 1 of CHP's Notice of General Meeting and Explanatory Statement (the "Notice") approved at a general meeting of CHP shareholders held on 21 March 2018 (the "General Meeting"). The remaining 292,500,000 shares ("Tranche 2 Shares") are purportedly issued utilising CHP's 15% capacity under Listing Rule 7.1;
- B. The proposed issuance by CHP of 917,500,000 free attaching options on a 1:1 basis exercisable at \$0.015 per share on or before 30 November 2021 to subscribers of the Placement Shares (the "Free Attaching Options");
- C. The proposed issuance by CHP to CPS and/or its nominees of up to 300,000,000 options exercisable at \$0.015 per share on or before 30 November 2021 (the "CPS Options");
- D. The proposed issuance by CHP to brokers associated with the capital raising described in the Announcement of up to 20 options for every \$1.00 raised by the broker by inducing investors to participate in this capital raising (the "Broker Options");
- E. The proposed issuance to CHP of 50% of the common stock on a fully diluted basis in GPU.One Holding Inc. ("GPU.One"), a Canadian data processing centre and cryptocurrency mining company, pursuant to a binding term sheet ("Term Sheet") entered into between CHP and GPU.One on 14 February 2018. The consideration to be paid by CHP for the stock is CAD7.5 million on completion of the capital raising and a further CAD7.5 million on a deferred basis in accordance with further data centre infrastructure and mining equipment expansion plans (the "Proposed Investment"). The Proposed Investment is subject to the completion of due diligence (including technical, commercial, legal, financial and taxation due diligence) by CHP to its absolute satisfaction and CHP obtaining any necessary approvals from its shareholders in accordance with the ASX Listing Rules and/or Corporations Act 2001 (Cth).

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- F. CHP intends to fund the Proposed Investment via a combination of existing investment capital including the capital raised by the issue of the Placement Shares, the disposal of existing investments, convertible note funding and/or additional equity capital raises.
- G. GPU.One is said to be an established and profitable data processing and cryptocurrency company focused on mining leading cryptocurrencies including Bitcoin, Ethereum, and Litecoin.

Having regard to the above, ASX asks CHP to respond separately to each of the following questions and requests for information:

1. Please provide a copy of the current register of CHP members for each class of equity security on issue showing the name and address of each holder and the number of securities held.
2. Please provide a list of the proposed subscribers for the Placement Shares showing the name, address and number of shares subscribed for.
3. Please provide a list of the recipients of the Broker Options, showing the name and address of each recipient and the number of Broker Options received.
4. Please provide a detailed description of the process employed to identify and market to the subscribers for the Placement Shares.
5. Please provide a copy of CHP's bank statement confirming the receipt of the subscription funds for the Placement Shares.
6. Please provide a detailed description of the due diligence undertaken by CHP in respect of the Proposed Investment.
7. Please provide a copy of the financial statements for the last three fiscal years for GPU.One or, if CPH does not possess a copy of those financial statements, an explanation of why that is so.
8. Please provide a detailed description of the objective criteria required to be met by GPU.One prior to CPH investing the second payment of CAD7.5 million, described in the Announcement as being payable "on a deferred basis in accordance with further data centre infrastructure and mining equipment expansion plans".
9. ASX notes that the Term Sheet was entered into on 14 February 2018 and the Notice was released on MAP on 16 February 2018. ASX also notes the statement in the Announcement that the consideration for the Proposed Investment will be funded from a combination of existing capital, including funds raised pursuant to Resolution 1 of the Notice. In light of this, please explain:
 - a) why the Term Sheet was not announced to the market when it was entered into;
 - b) why no information about the Term Sheet was included in the Notice;
 - c) how CHP has satisfied the requirement in Listing Rule 7.3.6 in relation to Resolution 1 of the Notice to include information about the intended use of the funds to be raised;
 - d) how CHP met its general law obligation to include in the Notice such material as will fully and fairly inform security holders of the matters to be considered at the General Meeting and enable them to make a properly informed judgment on those matters, given the absence of any information in the Notice about the Proposed Investment; and
 - e) why the shareholder approval to Resolution 1 of the Notice should not be regarded as not effective under Listing Rule 14.6 for failing to meet the requirement in Listing Rule 7.3.6;

10. Please provide a detailed calculation of CHP's placement capacity under Listing Rule 7.1 showing how the issue of the Tranche 2 Shares, the Free Attaching Options, the CPS Options and the Broker Options fits within that capacity, separately showing the outcome if Resolution 1 of the Notice is valid and if Resolution 1 of the Notice is not valid.
11. Please provide a detailed breakdown of the votes cast for each of the resolutions at the General Meeting, listing the shareholder names and number of shares each of them cast in favour of or against each resolution (this is so we can check compliance with any voting restriction requirements that should have been applied in respect of those resolutions).
12. Given the size and nature of the Proposed Investment, please provide submissions on why the Proposed Investment is not a significant change to the nature or scale of CHP's activities and why ASX should not exercise its discretion to require the change to be approved by the holders of CHP's ordinary securities under Listing Rule 11.1.2 and for CHP to re-comply with ASX's admission and quotation requirements under Listing Rule 11.1.3. In doing so, please address both case (1) and case (3) in section 3.2 of Guidance Note 12. In your analysis of case (3), please also factor in the recent investment in Securrency Inc. ("Securrency").
13. ASX notes the Announcement states that additional funding for the Proposed Investment will be raised "via a combination of existing investment capital including the abovementioned capital raise, the disposal of existing investments, convertible note funding and/or additional equity capital raises". Please advise whether or not CPH has made any decisions about which existing investments it intends to dispose of or whether it has any plans yet about any convertible note funding and/or additional equity capital raises.
14. Please provide an explanation as to why and when Resolution 4 of the Notice, seeking shareholder approval to an issue of 45,000,000 shares to fund part of CHP's investment in Securrency, was withdrawn and not voted on by shareholders at the General Meeting.
15. Given the withdrawal of Resolution 4 of the Notice, please explain how CHP intends to fund the balance of the acquisition payments due to be paid for the Securrency investment. Please also relate your answer back to the answer to question 13.
16. ASX notes that the securities of CHP have been suspended from quotation for more than five days in the previous 12 months. Hence CHP is not able to rely on the 'cleansing notice' provisions in relation to a secondary sale of securities issued without a disclosure document under a placement (section 708A(5) of the Corporations Act). Please explain how CHP intends to overcome this impediment to allow secondary trading in the Placement Securities or any shares issued pursuant to the CPS Options and the Broker Options.
17. ASX notes that when CHP requested the trading halt for its securities prior to trading commencing on Thursday 22 March 2018, the reasons given to ASX for the halt were for a capital raising of up to \$5 million to be used for "the stepped investment in Securrency and other current investments." No reference was made to the Proposed Investment. Please explain this omission.
18. ASX notes the article entitled "Chapmans in Canadian crypto-mining play" on page 20 of The Australian Financial Review ("AFR") dated Monday, 26 March 2018 disclosing details of the Proposed Investment. ASX infers that CHP must have disclosed information about the Proposed Investment to the AFR before it was released on MAP, in breach of Listing Rule 15.7. Is ASX's inference correct? If not, does CHP have any other explanation of how the AFR came into possession of such detailed information about the Proposed Acquisition?

These requests are made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than 9.00 a.m. AEDT on Friday 6 April 2018. ASX does not intend to release the information referred to in paragraphs 1, 2, 3, 5, 7 and 11 above to the market but it reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A.

Once ASX has received and analysed your response, it is likely to have further questions for CHP.

We reiterate the direction under Listing Rule 18.8 given in our email dated 26 March 2018 that CHP refrain from issuing any shares or options described in the Announcement until ASX is satisfied that such issues can be made in accordance with the Listing Rules.

Should you have any queries in relation to the above, please let me know.

Kind regards

[Sent electronically, without signature]

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