



## ASX Announcement

26 June 2019

### Cleansing Notice under section 708a(12c)(e) of the *Corporations Act 2001* (Cth)

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#### 1. Purpose of this Cleansing Notice

- 1.1 BrainChip Holdings Ltd ACN 151 159 812 (**Company**) gives this cleansing notice (**Cleansing Notice**) under section 708A(12C) of the *Corporations Act 2001* (Cth) (**Corporations Act**) as amended by *ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82* (**ASIC Instrument 2016/82**).
- 1.2 The Company entered into a convertible securities agreement on 26 June 2019 (**Convertible Securities Agreement**) with CST Capital Pty Ltd ACN 628 583 700 as trustee of the CST Investments Fund, an unrelated third party investor (**Investor**) under which the Company has issued convertible securities with a face value of US\$2,850,000 (**Convertible Securities**) to the Investor. The Convertible Securities are 'convertible notes' within the meaning of the *Corporations Act*.
- 1.3 The Convertible Securities have been issued to the Investor as a professional investor without disclosure under Part 6D.2 of the *Corporations Act*. The issue of this Cleansing Notice enables the fully paid ordinary shares in the Company (**Shares**) to be issued by the Company in the event of conversion of the Convertible Securities to be on-sold to retail investors without further disclosure.
- 1.4 The Company gives notice that:
  - 1.4.1 the Convertible Securities were issued without disclosure to the Investor under Part 6D.2 of the *Corporations Act*; and
  - 1.4.2 this Cleansing Notice has been given in accordance with section 708A(12C)(e) of the *Corporations Act* (as modified by *ASIC Instrument 2016/82*).
- 1.5 Neither ASIC nor ASX take responsibility for the contents of this Cleansing Notice.
- 1.6 The terms of the Convertible Securities are summarised in section 4 below.

#### 2. Contents of this Cleansing Notice

- 2.1 This Cleansing Notice sets out the following:
  - 2.1.1 in relation to the Convertible Securities and underlying Shares:
    - (a) the effect of the issue on the Company;
    - (b) a summary of the rights and liabilities attaching to the Convertible Securities; and
    - (c) a summary of the rights and liabilities attaching to the Shares that will be issued on the conversion of the Convertible Securities; and



2.1.2 any information that:

- (a) has been excluded from continuous disclosure in accordance with the ASX Listing Rules; and
- (b) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
  - (i) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
  - (ii) the rights and liabilities attaching to the Shares and the Convertible Securities;

to the extent which it would be reasonable for investors and their professional advisors to expect to find in this Cleansing Notice; and

2.1.3 certain information relating to the Company's status as a disclosing entity.

### **3. The effect of the issue on the Company**

3.1 The principal effect of the issue of the Convertible Securities on the Company will be to:

- 3.1.1 increase the cash reserves of the Company by approximately US\$2,565,000;
- 3.1.2 increase the indebtedness of the Company by the aggregate face value of the Convertible Securities, being US\$2,850,000; and
- 3.1.3 increase the number of Shares on issue as a result of the issue of the Collateral Shares and Drawdown Shares (see below) and in the event the Investor elects to convert all or part of the Convertible Securities or exercise any or all of its Options in accordance with the terms of the Convertible Securities Agreement, as further described at paragraph 3.2 and in section 4 below.

3.2 A table setting out the effect of the Company's entry into the Convertible Securities Agreement on the capital structure of the Company is set out below.

|                                 | Number on issue immediately prior to entry into the Convertible Securities Agreement | Number on issue on the date of this Cleansing Notice <sup>1</sup> | Number on issue assuming full conversion of the Convertible Securities and exercise of the Options (on a fully diluted basis) <sup>2</sup> |
|---------------------------------|--|---|--|
| <b>Shares</b>                   | 1,049,883,519  | 1,081,444,798   | 1,410,413,774  |
| <b>Options</b>                  | 200,450,000  | 226,968,976   | 0  |
| <b>Performance Share Rights</b> | 3,850,000  | 5,850,000   | 5,850,000  |
| <b>Convertible Securities</b>   | 0  | 2,850,000   | 0  |

#### 4. Rights and liabilities attaching to the Convertible Securities

4.1 The following is a broad summary of the rights and liabilities attaching to the Convertible Securities. The summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of the Investor.

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| <b>Term and maturity</b> | <p>The maturity date is 12 months from the date of the issue of the Convertible Securities, namely 26 June 2020 (<b>Maturity Date</b>).</p> <p>The Company has the right to extend the Maturity Date by 6 months on up to 3 separate occasions (18 months in total) by paying an extension fee equal to 3% of the face value of the then outstanding Convertible Securities on each such occasion. These rights of extension cannot be exercised by the Company:</p> <ul style="list-style-type: none"> <li>• during a '<b>Potential Event of Default</b>' (being an event or circumstance which, with notice or passage or lapse of time or both, would constitute an Event of Default);</li> <li>• while an Event of Default is subsisting; or</li> <li>• when the Company's market capitalisation is less than A\$20,000,000.</li> </ul> |
| <b>Total face value</b>  | US\$2,850,000   |

<sup>1</sup> After issue of the Drawdown Shares, Collateral Shares, Convertible Securities and Options.

<sup>2</sup> Based on the maximum available Shares on conversion, being 102.0 million, under the conversion terms of the Convertible Securities Agreement.

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| <p><b>Interest</b></p>                | <p>The Convertible Securities carry an effective interest rate of 10% per annum. This interest is paid by way of the purchase price for the Convertible Securities being at a discount to the aggregate face value of the Convertible Securities, such that interest until the Maturity Date was effectively paid upfront on the issue of the Convertible Securities.</p> <p>There is no adjustment in the event that all or part of the Convertible Securities are converted into Shares at any time.</p> <p>If an Event of Default occurs, interest will accrue on the aggregate face value of the Convertible Securities then outstanding at the rate of 10% per annum, compounded monthly, until the Event of Default is remedied or all outstanding amounts are repaid to the Investor.</p>   |
| <p><b>Drawdown fee</b></p>            | <p>Under the Convertible Securities Agreement, the Company was required to pay a drawdown fee of US\$85,500 on the issue of the Convertible Securities. Payment of this amount was satisfied by the issue of 1,561,279 Shares at \$0.079 per Share (<b>Drawdown Shares</b>) by the Company to the Investor.</p>  |
| <p><b>Permitted use of funds</b></p>  | <p>The funds received from the Investor must be used for general corporate and working capital purposes.</p>   |
| <p><b>Security and collateral</b></p> | <p>The Convertible Securities are unsecured and rank equally with all other unsecured obligations of the Company.</p> <p>While unsecured, under the Convertible Securities Agreement, the Company was required to issue 30,000,000 Shares to the Investor for no consideration (<b>Collateral Shares</b>) at the time of issue of the Convertible Securities.</p> <p>The Collateral Shares may be traded or otherwise dealt with by the Investor during the term of the Convertible Securities Agreement. In addition, the Investor may but is not obliged to use them in full or partial satisfaction of the Company's obligation to issue Shares on conversion of the Convertible Securities or exercise of the Options.</p> <p>On the Maturity Date or any earlier date that the Company elects or is required to redeem all of the then outstanding Convertible Securities, the value of the Collateral Shares less any Shares used by the Investor in satisfaction of the Company's obligation to issue Shares on conversion of the Convertible Securities or exercise of the Options (<b>Unused Collateral Shares</b>), may be applied to reduce the amount outstanding.</p> <p>On termination or expiry of the Convertible Securities Agreement, if there are Unused Collateral Shares and no amounts outstanding under the Convertible Securities Agreement, Shares equal to the number of Unused Collateral Shares must either be, at the election of the Company, sold-back to the Company or transferred to a nominee as directed by the Company, in either case for nominal consideration. If the Company fails to make an</p> |

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|  | <p>election, Shares equal to the number of Unused Collateral Shares must be sold on market by the Investor with 95% of the net sale proceeds paid to the Company.</p> <p>If the Investor does not hold Shares equal to the number of Unused Collateral Shares at that time, the Investor must pay the Company the value of those Shares.</p> <p>In each case, the value of the Unused Collateral Shares will be determined on a similar basis to the conversion price for Collateral Securities.</p>  |
| <p><b>Conversion terms</b></p>                       | <p>The Investor may elect to convert all or part of the Convertible Securities into Shares by issuing a conversion notice to the Company (<b>Conversion Notice</b>).</p> <p>There is no restriction on the number of Conversion Notices that may be issued, nor any restriction on the number of Convertible Securities that may be converted under any one Conversion Notice.</p> <p>If a Conversion Notice is served on or before 24 September 2019 the conversion price will be \$0.079.</p> <p>After that, the conversion price in respect of each Conversion Notice will be the lesser of:</p> <ul style="list-style-type: none"> <li>• \$0.079; and</li> <li>• 92% of the average of 5 daily VWAPs<sup>3</sup> selected by the Investor from any of the 20 trading days on which Shares were actually traded on the ASX prior to the issue of the relevant Conversion Notice (or, if a Conversion Notice is served between 25 September 2019 and 23 October 2019, 92% of the average of 5 daily VWAPs selected by the Investor from any period of 20 consecutive trading days on which Shares were actually traded on the ASX between the date of this notice and the date that the Conversion Notice is given).</li> </ul> <p>All AUD amounts will be converted into USD amounts at the spot rate of exchange.</p> |
| <p><b>Maximum number of Shares on conversion</b></p> | <p>The maximum number of Shares that may be issued in respect of the Convertible Securities is 102,000,000 (<b>Share Cap</b>).</p> <p>If:</p> <ul style="list-style-type: none"> <li>• the VWAP falls below \$0.02 for 3 consecutive business days; or</li> </ul>   |

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<sup>3</sup> **VWAP** means, in relation to a trading day, the volume weighted average price (in AUD) of the Shares traded on the ASX during that trading day, as reported by Bloomberg, LP.

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|                                    | <ul style="list-style-type: none"> <li>the amount outstanding under the Convertible Securities Agreement is at least A\$1,000,000 and a conversion of all of the then outstanding Convertible Securities would be prevented by the Share Cap,</li> </ul> <p>the Investor may require that the Company convene and hold a general meeting of its shareholders to obtain shareholder approval for the issue of '<b>Replacement Convertible Securities</b>' to the Investor to replace the Convertible Securities then on issue, on the same terms as Convertible Securities but not subject to the Share Cap. In any event, the Company must obtain shareholder approval for the issue of Replacement Convertible Securities at its next annual general meeting.</p> <p>The Company may also convene and hold a general meeting of its shareholders to obtain shareholder approval to issue Replacement Convertible Securities at its own election.</p> <p>The Investor cannot convert the Convertible Securities if doing so would breach the takeover rules contained in the Corporations Act.</p>   |
| <p><b>Voluntary prepayment</b></p> | <p>The Company may prepay the face value of all (but not some) of the outstanding Convertible Securities at any time (and by doing so redeem the Convertible Securities) by giving 20 business days' notice to the Investor (<b>Early Redemption Notice</b>). At any time after receipt of the Early Redemption Notice but prior to redemption of the Convertible Securities, the Investor may issue a Conversion Notice for up to 50% of the face value of the Convertible Securities. If however the Early Repayment Notice is given prior to 24 September 2019, the Investor may issue a Conversion Notice in respect of:</p> <ul style="list-style-type: none"> <li>up to 50% of the face value of the Convertible Securities at \$0.079; plus</li> <li>where the conversion price calculated by reference to the VWAP formula set out above would be less than \$0.079 (<b>Lower Price</b>), up to an amount that equals 12.5% of the value traded of Shares on the ASX between 26 June 2019 and the date of issue of the Conversion Notice, at a conversion price equal to the Lower Price.</li> </ul> <p>The Company cannot serve an Early Redemption Notice while an Event of Default is subsisting.</p> |
| <p><b>Mandatory prepayment</b></p> | <p>If the Company raises funds via issuing debt or equity or other means, the Investor may require repayment of:</p> <ul style="list-style-type: none"> <li>in respect of a debt raise, up to the net amount raised by the Company; or</li> <li>otherwise, up to US\$1,250,000.</li> </ul>   |

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|                                 | <p>These rights do not apply in respect of any draws on an overdraft facility or a debt raise raising net funds of less than \$300,000.</p> <p>The Investor's right of repayment in these circumstances is subject to the Company actually receiving the relevant funds.</p>   |
| <p><b>Events of default</b></p> | <p>The Convertible Securities Agreement sets out a number of events that are each deemed to be an <b>Event of Default</b>. These events include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• material breaches of the Convertible Securities Agreement, including the failure to issue Shares to the Investor on conversion of the Convertible Securities or exercise of the Options or failure to apply for quotation of those Shares within certain timeframes;</li> <li>• insolvency of the Company or any of its subsidiaries;</li> <li>• any steps being taken by or against the Company or any of its subsidiaries in respect of the appointment of a controller, administrator or liquidator, winding up or composition with creditors;</li> <li>• failure by the Company to comply with the ASX Listing Rules in a material respect;</li> <li>• a change in control of the Company;</li> <li>• enforcement action being taken against the Company or its subsidiaries or in respect of any of their assets;</li> <li>• provision of materially false or inaccurate information by the Company to the Investor or the ASX;</li> <li>• a suspension of trading of Shares for more than 5 trading days in any 12 month period;</li> <li>• certain failures by the Company or its subsidiaries to pay their debts when and as they fall due;</li> <li>• material defaults by the Company or any of its subsidiaries under agreements that relate to financial indebtedness or that are otherwise material (likely to result in a claim for an amount greater than \$100,000);</li> <li>• a security interest being granted by the Company or any of its subsidiaries or otherwise coming into existence in breach of the Convertible Securities Agreement;</li> <li>• the Company or any of its subsidiaries taking action to reduce its share capital; and</li> <li>• the Company or any of its subsidiaries ceasing to conduct all or a substantial part of its business or disposing of all or a substantial part of its assets (or indicating an intention to do either of such things).</li> </ul> |

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|                                       | <p>If an Event of Default occurs and the Company does not remedy that default within 10 business days (where remediable), the Investor may demand repayment of the face value of all then outstanding Convertible Securities and any other amounts owing in connection with them. If the Event of Default is a failure in payment to the Investor, a default in respect of a conversion, a failure to issue Shares as a result of insufficient placement capacity under ASX Listing Rule 7.1, a failure to obtain shareholder approval to issue Replacement Convertible Securities or a default in issuing the Replacement Convertible Securities, the Company is required to repay 105% of the then outstanding amount.</p> <p>In addition, the Company agrees to indemnify the Investor and certain related parties against any losses that arise or are incurred in connection with an Event of Default or Potential Event of Default.</p> |
| <b>Assignment and transferability</b> | <p>The Investor may assign or transfer its rights under or in connection with the Convertible Securities Agreement without the consent of the Company.</p> <p>The Investor may also nominate a third party to be issued Shares on conversion of the Convertible Securities or exercise of the Options.</p>  |
| <b>Options</b>                        | <p>In accordance with the terms of the Convertible Securities Agreement, the Investor was granted 21,868,976 options to purchase Shares (<b>Options</b>). The Options have an exercise price of A\$0.117 and expire on 26 June 2022.</p>  |
| <b>Governing law</b>                  | <p>The Convertible Securities Agreement is governed by the laws of the state of New South Wales, Australia.</p>   |

## 5. Rights and liabilities attaching to Shares issued under the Convertible Securities

- 5.1 The Shares to be issued to the Investor on the conversion of the Convertible Securities will rank equally in all respects with all of the Company's existing Shares.
- 5.2 The rights attaching to Shares, including new Shares to be issued to the Investor on the conversion of the Convertible Securities, are set out in the Company's Constitution, and, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules and the general law.
- 5.3 A broad summary of the rights and liabilities attaching to Shares as at the date of this Cleansing Notice are set out below.

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|-------------------------|--|
| <b>General meetings</b> | <p>Each holder of Shares (each a <b>Shareholder</b>) has the right to receive notice of and to attend and vote at general meetings of the Company.</p> |
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|-----------------------------|--|
| <b>Voting</b>               | Each Share entitles the Shareholder to one vote on a poll, and a Shareholder has one vote on a show of hands.  |
| <b>Dividends</b>            | Dividends may be paid to Shareholders as declared by the board of directors of the Company at its discretion.  |
| <b>Rights on winding up</b> | If the Company is wound up, the Shares attract the right to participate equally in the distribution of the surplus assets of the Company.  |
| <b>Transfer of Shares</b>   | Generally, Shares are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the ASX Listings Rules.   |
| <b>Variation of rights</b>  | If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), may be varied with the consent in writing of the holders of 75% of the issued shares of that class or if authorised by a special resolution passed at a general meeting of the holders of the shares of that class. |

## 6. Reporting and disclosure obligations

- 6.1 The Company is a disclosing entity for the purposes of the Corporations Act and is therefore subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. These obligations require ASX to be notified periodically and on a continuous basis of information about specific events and matters as they arise for the purpose of ASX making the information available to the financial market operated by it.
- 6.2 In particular, the Company has an obligation under the ASX Listing Rules (subject to certain limited exceptions) to notify ASX immediately of any information concerning the Company, of which it becomes aware, which a reasonable person would expect to have a material effect on the price or value of the Company's securities. The Company is also required to prepare and lodge with ASIC and ASX both yearly and half-yearly financial statements accompanied by a directors' declaration and report, and an audit or review report.
- 6.3 ASX maintains records of company announcements for all companies listed on ASX. The Company's announcements may be viewed on ASX website ([www.asx.com.au](http://www.asx.com.au)). ASIC also maintains records in respect of documents lodged with it by the Company, and these may be obtained from or inspected at any office of ASIC. The Company will provide a copy of each of the following documents, free of charge, to any person on request:
- 6.3.1 the annual financial report most recently lodged by the Company with ASIC, being the financial report of the Company for the year ended 31 December 2018 which was lodged with ASX on 27 March 2019; and

6.3.2 any continuous disclosure documents given by the Company to ASX after the lodgement of the annual financial report referred to in paragraph 6.3.1 and before the lodgement of this Cleansing Notice with ASX, details of which are as follows:

| <b>Date</b>   | <b>Title of announcement</b>                      |
|---------------|---|
| 26 June 2019  | Entitlement Offer                                 |
| 25 June 2019  | Trading Halt                                      |
| 12 June 2019  | BRN Introduces Powerful Neural Network Converter  |
| 7 June 2019   | App 3B Correction to Exercise Price               |
| 6 June 2019   | Appendix 3B                                       |
| 30 May 2019   | Results of Annual General Meeting                 |
| 30 May 2019   | AGM CEO Presentation                              |
| 28 May 2019   | Availability of Advanced AI Intellectual Property |
| 2 May 2019    | AGM Notice of Meeting - Annexure (Constitution)   |
| 29 April 2019 | Quarterly Update - March 2019                     |
| 29 April 2019 | Appendix 4C                                       |
| 26 April 2019 | Organisational Realignment                        |
| 26 April 2019 | Annual General Meeting - Notice of Meeting        |
| 17 April 2019 | BRN Responds to Shareholder REM Report Concerns   |
| 11 April 2019 | Ceasing to be a substantial holder from MLX       |
| 1 April 2019  | Final Director's Interest Notice - Stein          |
| 27 March 2019 | Appendix 4G and Corporate Governance Statement    |

6.4 All requests for copies of the above documents should be addressed to:

The Company Secretary  
BrainChip Holdings Ltd  
Level 12, 225 George Street  
Sydney NSW 2000

Certain documents are also available on the Company's website, [www.brainchipinc.com](http://www.brainchipinc.com).

## 7. No excluded information

7.1 As at the date of this Cleansing Notice, the Company advises that there is no information which the Company has excluded from any of its continuous disclosure notices given in accordance with the ASX Listing Rules which would be reasonable for investors and their professional advisors to require for the purpose of making an informed assessment of:

7.1.1 the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and

7.1.2 the rights and liabilities attaching to the Convertible Securities and Shares,



and which it would be reasonable for investors and their professional advisers to expect to find in this Cleansing Notice.

A handwritten signature in blue ink, appearing to read "K. Clark".

**Kim Clark**  
Company Secretary  
BrainChip Holdings Ltd

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**About BrainChip Holdings Ltd (ASX:BRN)**

BrainChip Holdings Ltd is a leading provider of neuromorphic computing solutions, a type of artificial intelligence that is inspired by the biology of the human neuron. The Company's revolutionary new spiking neural network technology can learn autonomously, evolve and associate information just like the human brain. The proprietary technology is fast, completely digital and consumes very low power. The Company provides software and hardware solutions that address the high-performance requirements in civil surveillance, gaming, financial technology, cybersecurity, ADAS, autonomous vehicles, and other advanced vision systems. [www.brainchip.com](http://www.brainchip.com)