

## **ALPHACIPHER ACQUISITION CORPORATION**

### **Memorandum of Understanding of the Proposed Terms for the Private Placement of up to US\$12,500,000 in Securities and the acquisition of substantially all the assets of Vadium Technology, Inc.**

**December 29, 2011**

#### **A. PRINCIPAL FINANCING TERMS**

**Issuer:** AlphaCipher Acquisition Corporation, a Washington corporation, (“AAC”) whose headquarters is located at 401 Second Avenue, Suite 500, Seattle, WA 98104, and its to be majority owned subsidiary, Vadium Voice Communications, LLC, (“VVC”) located at the same address.

**Investor:** Belhara Security Systems Inc., a privately held corporation formed under the laws of British Columbia, Canada, whose headquarters is located at: Suite #807 - 475 HOwe Street, Vancouver, BC V6C 2B3 Canada

**Description of Securities Issuance and concurrent acquisition of the AlphaCipher Technology Platform from Vadium Technology, Inc., along with investment in Vadium Voice Communications, LLC:** Investor will purchase, for cash, a total of Twelve Million Five Hundred Thousand United States Dollars (US\$12,500,000) in Securities consisting of a Five Million United States Dollars (US\$5,000,000) of Series A Preferred Stock of AAC, Five Million United States Dollars (US\$5,000,000) of 5 Year, 7.0% Promissory Notes of AAC, and Two Million Five Hundred Thousand United States Dollars (US\$2,500,000) of Member Units of VVC. Upon completion of this offering and the follow-on acquisition of substantially all the assets of Vadium Technology, Inc., a Washington corporation, (“EX-VTI”) the investors would own approximately 40% of the issued and outstanding shares of the AAC, along with a 5 Year Term Note, without considering the shares to be issued under a corporate equity incentive program, and the 25% interest in VVC that is convertible into AAC common stock that would represent up to a 20% interest in AAC. Concurrent with the offering, the Company will purchase all of the EX-VTI’s assets in exchange for up to US\$9.5 Million in Cash and up to a 32% Equity Interest in AAC (“Vadium Reorganization”). Upon the completion of the Vadium Reorganization, AAC would be renamed Vadium and own all of the assets, employees, customers and the business interests of the EX-VTI. All of the assets, employees, customers and business operations of the company would occur in AAC. The EX-VTI corporation would then be liquidated with the cash being used to satisfy existing liability in the existing Vadium and the up to 32% equity interest in AAC being liquidated to the existing shareholders of Vadium. The remaining 8% of the common shares of the company would be issued in the form of Common Stock Purchase Warrants to the Key Executives of AAC as part of an executive retention package. Additionally, concurrent with or before the closing of the main offering, Investor will invest Two Million Five Hundred Thousand Dollars (US\$2,500,000) in the to be majority owned subsidiary of EX-VTI named Vadium Voice Communications, LLC, in exchange for up to a 25% interest in VVC, as part of this investment, VVC, shall receive the right to convert it ownership interest into AAC Series A shares, upon said conversion Investor would own up to but no more than 60% of AAC, and the EX-VTI shareholders and officers would be diluted to a collective 40% of AAC, without regard to future share issuance or dilution from the planned equity incentive plan..

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**Post Close Capitalization**

**With Follow on Stock**

**Option Plan Presented:**

| <b>Holder</b>          | <b>Common Stock</b> | <b>Series A Preferred</b> | <b>Options / Warrants</b> | <b>%</b>       | <b>Total Shares</b> |
|------------------------|---------------------|---------------------------|---------------------------|----------------|---------------------|
| <b>Executives:</b>     |                     |                           | <b>3,000,000</b>          | <b>8.00%</b>   | <b>3,000,000</b>    |
| <b>EX-VTI</b>          | <b>12,000,000</b>   |                           |                           | <b>32.00%</b>  | <b>12,000,000</b>   |
| <b>Investor:</b>       |                     | <b>15,000,000</b>         |                           | <b>40.00%</b>  | <b>15,000,000</b>   |
| <b>Investor (VVC):</b> |                     | <b>7,500,000</b>          |                           | <b>20.00%</b>  | <b>7,500,000</b>    |
|                        | <b>12,000,000</b>   | <b>22,500,000</b>         | <b>3,000,000</b>          | <b>100.00%</b> | <b>37,500,000</b>   |

**Planned Use of Proceeds:**

|  | <b><u>Amount (US\$)</u></b> |
|--|-----------------------------|
| <i>Asset Acquisition</i>                               |                             |
| Purchase of EX-VTI Assets                              | 9,500,000                   |
| Acquisition of 25% of Vadium Voice Communications, LLC | 2,500,000                   |
| Transaction Costs and Contingencies                    | 500,000                     |
| <b>Total:</b>  | <b>\$12,500,000</b>         |

**Closing:** Individual Closing for Each Investor, within five (5) business days of receipt of approval of the financing from the Shareholders of the EX-VTI (Closing Date).

**B. CONVERTIBLE NOTE BRIDGE FINANCING TERMS**

**Amount:** Two Million US Dollars (US\$3,500,000)

**Planned Use of Bridge Proceeds:** The funds from the bridge will be used to pay legal and transactions costs associated with the financing and asset purchase contemplated by this Memorandum, along with making an initial down payment on the asset acquisition between AAC and EX-VTI along with funding working capital for AAC for the period between the Closing of the Bridge Financing and the Closing of the Series A Preferred Stock Financing of AAC.

**Type of Security:** Convertible Promissory Note (“Note”)

**Interest Rate:** Eight Percent Per Annum (8.00%)

**Conversion:** In the event the AAC consummates, prior to the Maturity Date (as defined below) an equity financing pursuant to which it sells shares of its Series A Preferred Stock (the “Series A Preferred Stock”) with an aggregate sales price of not less than US\$12,500,000, including any and all convertible bridge notes which are converted into preferred stock (including the Notes issued under the Note Purchase Agreement), and with the principal purpose of raising capital (a “Qualified

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Financing”), then the Note shall automatically convert all principal under the Note into the Series A Preferred Stock at 100% of the price paid by investors in the Qualified Financing. The Note shall convert into shares of Series A Preferred Stock on the same other terms as the other investors purchasing Series A Preferred Stock in the Qualified Financing.

**Term & Pre-Payment:** If not converted earlier, the Notes shall be due and payable day that is one year following the date of the Note (the “Maturity Date”). All principal and accrued interest under the Note is due and payable on the Maturity Date. The Note may be prepaid at any time without penalty upon five days prior written notice to the Holder

**Notes Purchase Agreement:** The Notes will be issued pursuant to a definitive Note Purchase Agreement containing customary covenants and representations and warranties of the Company.

### **C. ACQUISITION OF 25% INTEREST IN VVC BY BELHARA**

**Issuer** Vadium Voice Communications, LLC

**Investor** Belhara Security Solutions, Inc.

**Amount:** Two Million Five Hundred Thousand US Dollars (US\$2,500,000)

**Planned Use of Proceeds:** The funds from this investment will be used to reacquire the position held by a third party investor on an already agreed to acquisition of this interest. Upon completion of this investment Belhara will own 25% of VVC and Issuers parent company Ex-VTI – AAC will own 75% of VVC.

**Type of Security:** Limited Liability Company Member Units

**Conversion:** The Member Units may be exchanged for up to 7,500,000 shares of Series A Preferred Stock upon the written election of the investor. Additionally the LLC Member Units held by investor shall automatically be converted into up to 7,500,000 Series A Preferred Shares of VVC parent company just prior to the closing of a firmly underwritten public offering of not less than \$50,000,000 (before payment of underwriters’ discounts and commissions).

**Closing:** Closing will be held on a date to be determined by the parties but no later than than the Closing date described in the Asset Acquisition described in Section F Below or such other date that VVC and the investor participating in such closing mutually decide upon.

**LLC Operating Agreement:** The Member Units will be issued pursuant to a definitive LLC Operating Agreement containing customary covenants and representations and warranties of the Company.

## **D. SERIES A PREFERRED STOCK TERMS**

- Issuer:** AlphaCipher Acquisition Corporation
- Investor:** Belhara Security Solutions, Inc.
- Securities:** 15,000,000 shares of Series A Convertible Preferred Stock (“Series A Stock”)
- Price Per Share:** US\$.33
- Pre-Money Valuation:** US\$4,000,000
- Post Money Valuation:** US\$9,000,000
- Dividends:** No dividends shall accrue on the Series A Preferred unless declared by AAC’s Board of Directors (the Board), in which case they shall be non-cumulative. Any declared but unpaid dividends on the shares of Series A Preferred shall be paid upon the conversion of such shares into Common Stock either (at the option of the Company) by payment of cash or by the issuance of additional shares of Common Stock based upon the fair market value of the Common Stock at the time of conversion, as determined by the Board. No cash dividends or other distribution of property shall be paid on any other security of the Company prior to payment of an identical dividend or distribution to the Series A Preferred.
- Liquidation Preference:** Prior to the payment of any sums to any other equity security holders in the event of a liquidation, reorganization, recapitalization, merger, or dissolution, the Series A Preferred shall receive a Liquidation Value of 100% of their original investment, plus all declared and unpaid dividends thereon, if any. After the Liquidation Value has been returned to each of the Series A Preferred, the Series A shall share all remaining proceeds with the Common shareholders pro rata.
- Voting:** Each outstanding share of Series A Preferred shall have one vote for each Common Stock share equivalent into which such share of Series A Preferred is convertible. Series A Preferred will vote together with the Common Stock on all matters. .
- Conversion:** **Optional Conversion:** The holders of the Series A Preferred shall have the right to convert the Series A Preferred into shares of Common Stock at any time. The initial conversion rate for the Series A Preferred shall be 1-for-1, subject to adjustment as indicated below.  
**Automatic Conversion:** The Series A Preferred shall automatically be converted into Common Stock, at the then applicable conversion rate, upon: (i) the closing of a firmly underwritten public offering of not less than \$50,000,000 (before payment of underwriters’ discounts and commissions), or (ii) the written consent of holders of two-thirds (2/3) of the Series A Preferred then outstanding.
- Anti-dilution Protection:** Proportional anti-dilution protection for stock splits, stock dividends, combinations,

recapitalizations, etc. The conversion price of the Series A Preferred shall be subject to adjustment to prevent dilution, on a "weighted average" basis, in the event that the Company issues additional shares of Common Stock or Common Stock equivalents at a purchase price less than the applicable conversion price, subject to the following carve-outs: (i) the issuance of shares issuable upon conversion of the Series A Preferred, along with any issued, outstanding and unexercised Common Stock Purchase Warrants, (ii) the issuance of up to the greater of 8,000,000 shares of Common Stock or 20% of the current outstanding shares of Common and Preferred Stock to employees, consultants, officers or directors of AAC pursuant to AAC's stock option plan as approved by the Board of AAC, (iii) the issuance of securities in connection with future acquisition transactions approved by the Board of AAC, (iv) the issuance of securities to financial institutions or lessors in connection with commercial credit arrangements, equipment financings or similar transactions approved by the Board of AAC, or (v) the issuance of shares in connection with stock splits, stock dividends or like transactions.

**Board Representation:**

AAC's Board shall be comprised of at least nine, but no more than eleven members. The board shall consist of three executive officers from the Company, along with at least 4 independent directors to be elected by the common shareholders, who shall be acceptable to the Investors and AAC's Board Members who are Executives of AAC. Additionally, Investor's shall be granted the right to appoint two members to the Board (Series A Representatives) subject to approval of the individuals who will be the Series A Representatives on AAC's Board by AAC's current Board of Directors.

**Protective Covenants and Limitations:**

(1) Consent of holders of at least 51% of the outstanding Series A Stock voting separately shall be required for:

(a) Payment of any dividends or other distributions or capital stock or repurchases or redemptions of Common Stock other than pursuant to employee vesting or repurchase agreements;

(b) Any lease, sale or transfer of all or substantially all of the assets;

(c) Merger unless the Company's shareholders hold a majority of the voting power of the surviving entity; and

(d) Any liquidation or winding up.

(2) Within six months for the closing of the funding, AAC shall retain either a national or Big-4 Independent Certified Public Accounting firm to review on a quarterly basis the AAC's quarterly financial statements, along with auditing, on an annual basis, the AAC's annual financial statements.

(3) Within 60 days of the end of each fiscal quarter and within 120 days of the end of each fiscal year, AAC shall provide to its investors quarterly or annual reports as the case may be in the form of quarterly reports and annual reports reviewed by the Accounting firm designated above, as prescribed by the United States Securities and Exchange Commission in line with report form 10-Q and 10-K as appropriate.

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## **E. 5 YEAR, 7.0% PROMISSORY NOTE TERMS**

**Amount:** Five Million US Dollars (US\$5,000,000)

**Type of Security:** Promissory Note (“Note”)

**Interest Rate:** Seven Percent Per Annum (7.00%), payable at the Maturity Date.

**Term & Pre-Payment:** The Notes shall be due and payable day that is five years following the date of the Note (the “Maturity Date”). All principal and accrued interest under the Note is due and payable on the Maturity Date. The Note may be prepaid at any time without penalty upon five days prior written notice to the Holder

**Closing:** Closing will be held at the same time and place as the Series A Preferred Stock is closed or such other date that the AAC and Belhara mutually decide upon.

**Notes Purchase Agreement:** The Notes will be issued pursuant to a definitive Note Purchase Agreement containing customary covenants and representations and warranties of the Company.

## **F. ALPHACIPHER TECHNOLOGY PLATFORM ASSET ACQUISITION FROM VADIUM TECHNOLOGY, INC., BY ALPHACIPHER ACQUISITION CORPORATION**

**Purchaser:** AlphaCipher Acquisition Corporation.

**Seller:** Vadium Technology, Inc.

**Description of Proposed Transaction:** Prospective Buyer would acquire the collective one hundred percent (100%) right, title and interest in substantially all the assets of EX-VTI, which consists principally of the AlphaCipher Technology Platform, including all of the related patents, patent applications, copyrights, trademarks, computer source code, technical drawings and details, marketing collateral, employee invention assignment agreements, customers, computers and office furniture.(the “*Transaction*”). As time is of the essence, the parties intend that the closing of the proposed transaction would occur as soon as possible, but the time for the Closing will be finalized in the definitive agreement (the “*Closing*”).

**Purchase Price:** The total consideration for the Assets would be up to Ten Million United States Dollars (US\$10,000,000) plus 12,000,000 common shares in AAC, plus the assumption of certain contractual agreements of EX-VTI at the sole discretion of AAC.

**Conditions to Closing:** The parties do not intend to be bound to the Nonbinding Provisions or any provisions covering the same subject matter until the execution and delivery of the Definitive Agreement, which, if successfully negotiated, would provide that the proposed transaction would be subject to customary terms and conditions, including the

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following:

- a. receipt of all necessary consents and approvals of governmental bodies, lenders, lessors, creditors and other third parties, if necessary;
- b. delivery of customary legal opinions, closing certificates and other documentation.

**Form of Agreement:**

Buyer and Sellers intend promptly to begin drafting a written Asset Purchase Agreement, subject to the approval of Prospective Buyer's and Seller's respective boards of directors, containing the appropriate representations, warranties, indemnities, conditions and agreements by the parties.

**G. OTHER MATTERS**

**Executive Employment Agreements:**

AAC shall enter into Executive Employment Agreements with Jose Antonio Rios, appointing him as Executive Chairman of the Board, Rod Nicholls as President & CEO, and director and Wolfgang Hammersmith as Chief Technology Officer and Director. The Employment Agreements shall have an initial three (3) year term and provide for industry standard incentive compensation packages, competitive salaries, rights to participate in outside board of directors, and management protection plan for early termination.

**Executive Retention Warrants:**

As part of AAC acquisition of substantially all the assets of EX-VTI to retain the Key Executives of EX-VTI, principally, Jose Antonio Rios, Rod Nicholls and Wolfgang Hammersmith, AAC shall issue a pool of common stock purchase warrants to these individuals as part of their Executive Employment Agreements equal to 8% of the fully paid, issued at outstanding shares of AAC as of the date of the Closing of the Series A Preferred Stock Offering. These warrants shall have a ten year term, and a per-share exercise price equal to 107.5% of the Series A Preferred Stock per share price. The holders of these warrants shall have the right to exercise these warrants in exchange for the issuance of a ten year promissory note secured by the shares to be issued under these common stock purchase warrants. The promissory notes shall accrue interest at a rate of 5% per annum, and shall have an acceleration clause that requires the promissory notes to be paid of immediately prior to the listing of AAC's common stock on a national securities exchange in either the North America or Europe.

**Belhara Executive Leadership Council:**

Once both the closing of the Series A Preferred Stock Offering of AAC and the asset acquisition by AAC, Belhara shall form an Executive Leadership Council comprised of Tilo Kunz, CEO of Belhara, along with Mr. Don Ritzman, CEO of Absolute ID, and Jose Antonio Rios, Rod Nicholls and Wolfgang Hammersmith to provide for strategic leadership of all business operations affiliated with Belhara.

**Right of First Offer on Future Financings**

As part of provided the Series A Preferred Stock Financing described herein, Belhara shall be given an Investor Rights Agreement which shall provide Belhara with the Right of First Offer on the next private placement financing AAC undertakes, should its Board of Directors decide to undertake one.

**Asset Acquisition Cost**

The US\$12,500,000 budgeted in the use of proceeds for the acquisition of the EX-VTI assets by AAC is expected to be the maximum price for this, and the executives to work diligently to reduce this cost as much as possible, and any amounts retained and not spent on the asset acquisition will be reallocated to the Operating Reserve line in the Use of Proceeds and shall be directed for use at the discretion of AAC's

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Board of Directors.

**Concurrent Growth  
Capital Financing**

Concurrent to the transactions described in this Term Sheet the parties shall complete a \$15,000,000 debt financing of AAC by Belhara to fund AAC growth and expansion.

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**The securities represented by this proposed term sheet have not been registered under the Securities Act of 1933 ("Act"), as amended, or applicable state securities acts and are restricted securities as defined by Rule 144 of the Act in the United States. The securities offered herein may not be transferred, sold or otherwise disposed unless in compliance with the Act.**

A binding commitment with respect to the transactions described in this Memorandum will exist only upon the execution of mutually acceptable definitive written agreements for each transaction, containing such covenants, representations, warranties, closing conditions and other provisions as the parties may agree.

IN WITNESS WHEREOF, the parties hereto have caused this Memorandum to be executed by their duly authorized officers as of the date first written below.

**ALPHACIPHER ACQUISITION CORPORATION**



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By: Rod Nicholls  
Its: President & CEO  
Date: December 29, 2011

**BELHARA SECURITY SYSTEMS, INC.**



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By: Tilo Kunz  
Its: CEO  
Date: December 29, 2011

**VADIUM TECHNOLOGY INC.**



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By: Rod Nicholls  
Its: President  
Date: December 29, 2011

**VADIUM VOICE COMMUNICATIONS, LLC**



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By: Rod Nicholls  
Its: Manager  
Date: December 29, 2011