

20 September 2017

ASX Announcement

Veriluma to acquire Concept Safety Systems

Highlights

- Acquisition of Concept Safety Systems (CSS) will bring complementary emergency, safety and compliance technology to Veriluma's prescriptive analytics software
- CSS is a well regarded, cash flow positive, profitable business and is highly scalable in a growing sector, driven by the increasing vulnerability of businesses to global disasters
- The combined entity will offer a strong partner for government entities and businesses in disaster preparedness
- The combined entity will produce positive EBITDA in this financial year and is expected to have a combined value of in excess of \$15.0m
- Consideration of \$12.4m will comprise \$3.1m in cash and \$9.3m in new Veriluma shares, subject to a number of conditions precedent and shareholder approval
- Management will continue to focus on commercialising Veriluma's Intelfuze software which will play an integral role in the development of a new CSS product range
- Trading in VRI shares will be suspended at least until such time as ASX has determined the application of Chapter 11 of the ASX Listing Rules to the Transaction.

Veriluma Limited (ASX: VRI, Veriluma or Company) one of Australia's leading Artificial Intelligence companies providing prescriptive analytics software solutions is pleased to announce it has signed a conditional legally binding term sheet to acquire 100% of the issued capital and options on issue in Concept Safety Systems (Holdings) Pty Ltd (**CSS**).

CSS will be acquired for \$12.4m comprising of \$3.1m cash consideration and \$9.3m via the issue of 624,161,074 VRI shares at \$0.0149 per share, subject to shareholder approval. The acquisition is conditional on the successful capital raise of \$6.3m at a 30% discount to the 30-day VRI VWAP to 15 September 2017.

About Concept Safety Systems

CSS is a Brisbane based SaaS (Software-as-a-Service) company and one of Australia's leading emergency, safety and compliance technology businesses. It specialises in public safety software and advice for building emergency planning and delivers leading edge technology in emergency management, preparedness and response, providing site-specific online learning solutions and compliance tools.

Since it was founded in 2009, CSS has experienced continual revenue growth and has a range of national clients, including Qantas, Air Services Australia, Queensland Fire and Emergency Services, McDonalds Restaurants and the State Government of Queensland. CSS leverages innovation and market execution to grow and serve its clients' requirements in the important areas of compliance and safety. It has a strong presence in both Queensland and Tasmania, and is targeting strong growth in NSW, Victoria and the ACT in the near term.

Strategic rationale

CSS's offering provides complementary products and services to Veriluma's Intelfuze prescriptive analytics software. With numerous commercial applications identified in defence and national security, legal services and financial services, Intelfuze can assist corporations to focus their attention on areas where there is a higher probability for disaster by allowing a client to define the logic and insights behind any type of decision and to predict the cause of incidents to reduce the likelihood of a repeated disaster or effect.

Veriluma and CSS provide invaluable information and tools to help organisations prepare for both before and after a disaster occurs. Combined, the group will offer an impactful disaster preparedness solution, meaning organisations will be better placed to monitor indicators and warnings, develop intervention strategies and to forecast and update their assessment of evolving threats to be better placed to reduce loss of life and assets and to meet their Work Health and Safety (WHS) obligations.

Combined, CSS and VRI will also be better placed to meet emergency services' requirements for decision support and the provision of accurate spatial information for first responders. A blending of VRI's Intelfuze and CSS's PlanSafe technologies will aim to deliver better public safety outcomes, with Veriluma's software playing an integral role in the development of a new CSS product range focused on organisational compliance and safety.

Both companies have identified other areas of compliance and risk assessment to grow organic sales throughout Australia as well as other possible partnerships with similar firms located in the United States and the UK. Management will continue its focus on commercialising Veriluma's software and intends to grow the combined entity both organically and through acquisition and partnerships in the short to medium term.

Interim funding

VRI has accepted an offer from an ASX-listed listed investment company of a secured funding loan facility of up to \$400,000 at an interest rate of 8% per annum, subject to a general security agreement, customary conditions precedent, default events and terms to provide interim funding while the transaction proceeds. If the Transaction does not proceed the loan will be repayable immediately, and is otherwise repayable on 31 January 2018.

Proposed new Board and management

Accompanying the acquisition, the Company is announcing a new management team and structure to take the Company forward.

Mr John Welsh resigned from his role as non-executive director of the VRI Board, effective 15 September 2017. Company secretarial provider, Boardroom Pty Limited, has replaced Company Secretary, Ms Lisa Dadswell with Mr Tharun Kuppanda, effective 19 September 2017.

The new proposed Board and management team will add complementary skills and expertise to the existing team and help drive Veriluma forward as a listed company.

New Non-Executive Director, Dr Laurie Hammond

Dr Hammond was appointed to the VRI Board on 16 September 2017. A substantial shareholder in VRI, he has already contributed to the commercialisation of its technology for several years prior to its listing as a public company. He brings to the Board 20 years of

experience in research, followed by 20 years of private investment in early-stage technology ventures, executive and advisory positions in public policy and programs for innovation in Australia and overseas, and governance of commercially focused ventures.

He is the Chairman of the Bushfire and Natural Hazards Cooperative Research Centre Limited, an Australasian leader in research for emergency management, public safety and disaster resilience. He is also Chairman of CMTE Development Limited, a globally leading developer of technologies and equipment for the mining industry, and a director of ImmuneXpress Inc, a Seattle-based company developing new gold-standard sepsis diagnostics. Dr. Hammond has been a member of the Commonwealth's Innovation Australia Board, the main body for industry innovation support by the Australian Government; Chairman, Commercialisation Australia Board, supporting commercialisation of intellectual property by Australian companies; and director or chairman of some 20 private investee companies. He is a member of the Leadership Council of MSRA (Multiple Sclerosis Research Australia).

Group CEO designate, Mr John Hummelstad, Executive Chairman, CSS

John brings over 25 years of experience in the corporate development sector, assisting national and international businesses to recognise their full potential and to expand globally. His personal but strategic approach to business has positioned him as an expert in taking small, start-up software companies and transforming them into global industry leaders. John brings strong software and IT industry experience from previous roles at IBM Software Group Asia Pacific, IBM Venture Capital, Microsoft Venture Capital and Serena Software. John plays an active role in Australia's technology industry and is non-executive director at Ephox Corporation (Palo Alto), OneTest Pty Ltd (Brisbane), Independent Capital Partners and Chairman of Hummingbird House Children's Charity.

Group CFO designate, Mr Steve Kavanagh, CFO, CSS

A Chartered Accountant and qualified internal auditor, Steve holds a Bachelor of Business from Central Queensland University and is a registered tax agent. Formerly a Director at PricewaterhouseCoopers (PwC) in the Emerging Business Services division, he has over 25 years' experience in providing privately owned enterprises with business advisory, cash and liquidity management, funding, structuring and taxation planning, financial modeling, project development and management, decision support analysis and due diligence investigations matters. In addition to his CSS CFO responsibilities, he is responsible for the management and maintenance of CSS's integrated management system for Concept Safety Systems.

Commenting on the proposal, Veriluma Chairman, Mr Rick Anstey said: "We at Veriluma are very excited by the opportunities presented by the merger with CSS. With its enterprise software suite for location-based emergency preparedness, CSS is a great fit with Veriluma's prescriptive analytics software, which will see prescriptive analytics functionality made available to CSS's significant property client base in Australia and as it develops in the US and more widely.

"The maturity of the CSS offerings, its extensive client base, its scalability and its stable, debt-free, cash-flow positive, profitable business are a great addition to our own capabilities in the government, transportation and public authority sectors where CSS is already strong. CSS's acquisition by VRI will preserve and enhance VRI shareholder equity and with a strong invigorated Board will help drive VRI forward as a listed company."

CSS's Executive Chairman, Mr John Hummelstad, said: "We are very excited to be joining with our good friends at VRI. We believe that the CSS software will prove attractive to the VRI community. Between the two companies, there is a significant base of R&D to jointly develop,

market and sell. As matters stand, we couldn't think of a better time to be stepping up into the listed environment and to be catapulting Australian emergency ingenuity onto the world stage."

Acquisition is conditional

The completion of the acquisition is subject to a number of conditions, including VRI shareholder approval, and will not proceed if this approval is not secured.

It is unclear whether VRI will be required as part of the transaction to re-comply with ASX's requirements for admission and quotation as set out in Chapters 1 and 2 of the ASX Listing Rules. The matter has been referred to the ASX for its determination. The transaction would not proceed if those requirements were not met. The ASX has an absolute discretion in deciding whether or not to re-admit the Company to the Official List of the ASX and to quote its securities.

Additional details of the transaction are included in the Appendix attached.

Ends.

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About Veriluma and Prescriptive Analytics:

Veriluma has developed and patented an advanced algorithm dealing in Prescriptive Analytics. Prescriptive Analytics is a form of advanced, forward-looking analytics, which provides assessments about future outcomes. Although most types of analytics aim to assist and improve in the decision making process, only Prescriptive Analytics delivers a preferred course of action. Developed by a Commonwealth Research Centre for the Australian Defence Intelligence Organisation, which has been utilising Veriluma's technology since 2013, Veriluma's software assists decision makers with rapid and accurate assessments of terrorism and national security threats using its proprietary technology.

In complex decision making situations, the ability to comprehensively manage incomplete or uncertain inputs is highly valuable for businesses, governments and individuals. ¹The Prescriptive Analytics software market is expected to reach US\$1.1 billion in the next 3 years, with a 22% Compound Annual Growth Rate (CAGR) from 2016. Currently, 10% of organisations have some form of prescriptive analytics and this is expected to grow to 35% by 2020. ¹Source: Gartner Forecast Snapshot: Prescriptive Analytics, Worldwide, 2016; 5 February 2016.

Veriluma's software has wide applications across multiple industries, including banking and financial services, government, defence, law enforcement, legal services and regulatory compliance.

About CSS

CSS is a Brisbane based SAAS (Software as a Service) company and is one of Australia's leading emergency, safety and compliance technology businesses. It specialises in public safety software and advice for building emergency planning. Particularly, CSS provides online learning solutions and compliance tools to prepare both private and public infrastructure assets and people in case of a mass disaster. CSS delivers leading edge technology in emergency management, preparedness and response, providing site-specific online learning solutions and compliance tools. CSS has experienced continual revenue growth since its founding in 2009. CSS counts amongst its clients Qantas, Air Services Australia, Queensland Fire and Emergency Services, McDonalds Restaurants and the State Government of Queensland. CSS leverages innovation and market execution to grow and serve its clients' requirements in the important areas of compliance and safety.

Appendix: Additional details about the Transaction

Board and senior management at completion of the transaction

On completion of the transaction, the new Board and management will comprise:

Board

- A newly appointed independent director, who may serve as Chairman
- Dr Laurie Hammond, Non-executive Director
- Mr Rick Anstey, Non-executive Director
- Mr John Hummelstad, Group CEO
- Ms Elizabeth Whitelock, Executive Director

Senior Management

- Mr John Hummelstad, Group CEO
- Mr Steve Kavanagh, Group CFO
- Ms Elizabeth Whitelock, Veriluma Software Executive Director

Conditions of the transaction

VRI and CSS have signed a conditional legally binding term sheet. The term sheet is to be translated into a Share Purchase Agreement. The proposed transaction remains subject to the following conditions:

- (i) **Conditions Precedent** (to be satisfied prior to signing the Share Sale Agreement, targeted for 12 October 2017):
 - a. Buyer board approval;
 - b. Vendors, Holdings and CSS board approvals;
 - c. completion of due diligence by the Buyer on the Group and the Vendors in relation to the Group, the CSS Assets and the Sale Transaction;
 - d. completion of due diligence on the Buyer to the satisfaction of the Vendors in relation to the Buyer and the Sale Transaction;
 - e. identification of key employees willing to work for the Group in the direct or indirect ownership of the Buyer;
 - f. negotiation of and entry into mutually satisfactory market-based executive employment contracts for the key employees;
 - g. review of the CSS ESOP and the VRI Performance Shares and, if appropriate, rolling them into VRI to offer a single incentive plan for all VRI group employees;
 - h. no change in the shares on issue and their holders in Holdings and CSS; and
 - i. review and agreement of all related party contracts, with amendments as required by the Buyer; and

- (ii) **Conditions Subsequent** (to be satisfied after signing of the Share Sale Agreement – targeted for 12 October 2017 - and prior to Completion – targeted for 12 January 2018):
- a. the Buyer receiving shareholder approval to undertake a capital raising to raise \$6,300,000 at \$0.01043 per Share for the acquisition and for working capital, and the Buyer subsequently completing the capital raising and receiving to its own use the proceeds thereof;
 - b. any approvals or conditions required by ASX, ASIC or the *Corporations Act 2001*, including, where necessary, shareholder approvals, including under ASX listing rule 10.1 and as may be decided by the ASX in its discretion under ASX listing rule 11.1 (which may include re-compliance with the requirements of Chapters 1 and 2 of the ASX listing rules);
 - c. a full underwriting of the capital raising with a party or parties and on terms reasonably satisfactory to the Buyer, Holdings and CSS;
 - d. any final due diligence reasonably required by the Buyer on CSS or by CSS on the Buyer;
 - e. any third party approvals that are required;
 - f. signature of employment agreements with key employees; and
 - g. engagement of independent or new independent directors on market appropriate terms.

Terms of the transaction and issue of securities

Consideration

The consideration for the acquisition is \$12,400,000 to be satisfied by the issue (subject to shareholder approval) of 624,161,074 VRI shares at \$0.0149 per share to the shareholders of CSS and cash consideration of \$3,100,000, to be funded from the capital raising described below.

Capital raising

The acquisition is conditional upon VRI undertaking a capital raising to raise a minimum of \$6,300,000 at an offer price of \$0.01043 per share.

The parties are in discussions with potential underwriters of the raising with a view to the offer being fully underwritten.

Funds raised from the capital raising will as to \$3,100,000 be used to pay for the cash component of the consideration payable for the CSS shares. The balance of the proceeds of the capital raising will be used to pay for transaction costs and expenses and for working capital and acquisition purposes.

Issue of other securities

No other securities are intended to be issued by VRI before completion of the transaction.

Escrow of securities

Mandatory escrow requirements imposed by ASX are to be discussed with ASX. Voluntary escrow arrangements for former CSS shareholders may also apply.

Review of incentive plans

It is intended to review VRI's and CSS's incentive plans prior to completion of the transaction, which will include the cancellation of all VRI performance shares on issue.

Annexure A, ASX Guidance Note 12 information

Additional financial information

Audited financial statements for CSS are not currently available. Information about the likely effect of the transaction on VRI's consolidated total assets, total equity interests, annual revenue and annual profit after tax is not presently available.

Additional regulatory approvals and waivers sought

VRI and CSS intend to seek relief from the ASX in relation to ASX listing rule 9.1.3. ASX's assessment of the intended application is uncertain at the date of this announcement.

VRI securities issued in the six months preceding this announcement

On 6 June 2017, VRI issued 27,400 fully paid ordinary shares at an issue price of \$0.05 per share on the exercise of listed options to raise \$1,370. The funds raised have been used for working capital purposes.

On 18 September 2017, CSS issued 2,555,851 options with an issue price of \$0.00746 per option and an exercise price of \$0.21 per option. The funds raised will be used for working capital purposes.

Additional statements

ASX takes no responsibility for the contents of this announcement.

VRI is in compliance with its continuous disclosure obligations under ASX listing rule 3.1.

Indicative timetable

The indicative timetable for completion of the transactions and, should it be required, VRI's re-compliance with the ASX Listing Rules is set out below.

Event dates (2017/18)¹

19 September	Term Sheet signed
19 September	ASX announcement made; ASX trading suspended
3 October	ASX decision on re-compliance anticipated
12 October	Share Sale Agreement signed
17 October	Annual general meeting convened
22 November	Annual general meeting held
28 November	Prospectus lodged
5 December	Raising opens
20 December	Raising closes
22 December	Allocations announced
12 January 2018	Completion

Indicative capital structure pre- and post-transaction

The table below illustrates the current and projected capital structure of VRI.

VRI pre-transaction

Existing shares	359,131,459
Existing options #1	4,500,000 ²
Existing options #2	1,000,000 ³
Existing performance shares	to be cancelled
Sub-total	364,631,459

VRI post-transaction

Existing shares outstanding	359,131,459
Existing options	5,500,000 ⁴
Consideration shares for CSS shareholders	624,161,074
New shares issued in a \$6,300,000 capital raising	604,026,846
Total shares post-transaction (undiluted)	1,592,819,379
Incentive plan (maximum)	79,640,968

Total shares post-transaction (fully diluted) 1,672,460,347

¹ This timetable is indicative only and is subject to change. The timetable will contract in the event that ASX decides that VRI need not re-comply with Chapters 1 and 2 of the ASX Listing Rules

² Expiring on 31 October 2017, with an exercise price of 6.4 cents

³ Expiring on 8 September 2019, with an exercise price of 10.93 cents

⁴ Of these options, 4,500,000 options are due to expire on 31 October 2017