

KUNENE TO ACQUIRE DEPARTMENT 13 LLC – A US-BASED DRONE DEFENSE SYSTEM AND ADVANCED RF SOFTWARE COMMUNICATION AND NETWORKING COMPANY

- Kunene has signed a conditional HoA to acquire 100% of US-based cyber security and drone defense company, Department 13 LLC (D13)
- D13 delivers new RF software driven technological capabilities that have application across military, security and commercial sectors
- D13 has patented advanced communications and networking technologies
- Existing multiple contract relationships with US Government agencies
- D13 has completed a full scale demonstration to US defence/security agencies for a “Full Take Over” of a commercial drones system
- D13’s business model is to commercialise counter drone systems, monetise patents by licencing technology and by taking advanced cyber security technology to the commercial sector
- Business Insider Intelligence estimates that a cumulative US\$111Bn will be spent on drones by 2024, with US\$15bn spent on commercial/civilian applications. This will allow an increase in security and safety threats worldwide as well as commercial risks to business operations
- D13 Board and Management have significant experience in the defense and technology sectors as well as leadership positions within the US Military and US Government departments.

Kunene Resources Limited (**Kunene** or the **Company**) (**KNE**) is pleased to announce the signing of a conditional heads of agreement (**HOA**) to acquire 100 per cent of Department 13 LLC (**D13**).

D13 is a drone defense, cyber security and RF software communications and networking company based in Virginia, USA which has research and development contracts with multiple US Government agencies.

Market Background

Business Insider Intelligence estimates that a cumulative US\$111Bn will be spent on drones between now and 2024, with US\$15bn spent on commercial/civilian applications. National Security agencies around the world see commercial off-the-shelf (COTS) drones as the new major threat. Airports throughout the world are seeking regulations and defensive measures to protect aircraft from drones straying into commercial airspace and risking collisions. Lloyds of London Insurance, in a new report, has highlighted key issues for insurance as the market for drones rapidly expands in both the commercial and hobby sectors.

ABI research suggests the small drone market will exceed US\$8.4Bn by 2018.

D13 currently has engagements with:

- Five US Government agencies
- Two commercial customers

These opportunities represent significant potential annual sales and include work in the areas of drone defense, mobile phone cyber security and development of secure advanced android network systems.

D13 Background

D13 was founded in Virginia in 2010 by a team of former military operators, scientists and engineers who apply proprietary innovative advanced technology to emerging requirements.

D13 is developing cutting edge software and communication systems that have the potential to transform the networking and communication fields as well as current applications in drone defense, mobile phone IT security and secure enhanced android phone systems.

D13 has 10 patents and 9 patent applications in the development of wireless protocol manipulation and communication networking software with applications in:

- Drone defense;
- Local area and wide area cellular communications and networking;
- Enhance data bandwidth for all digital communications
- Cyber security for mobile devices;
- Sophisticated applications in the RF environment (Radiometrics).

D13 has established contracts and/or relationships with five US Government Agencies.

D13 has existing revenues from growing sales in both the commercial and defense sectors including:

- Working with key government partners to build a drone defense system
- Work to leverage strong patent portfolio by partnering and licensing communication and networking disruptive and transformative technologies.

D13 Product and Service Line

Mesmer-D Drone Defense System

D13's Mesmer-D Drone Defense System allows the capture or redirection of commercial drones (unmanned aerial vehicles, UAVs) and meets all operating restrictions under the current regulatory environments. D13's Mesmer-D Drone Defense System is being trialled with US Government Agencies and has significant differentiators from incumbent products.

The Mesmer-D identifies and allows a remote user to take control of commercial drones in a safe and controlled manner. The Mesmer-D is adaptable to specific situations and operates within the current regulatory environment.

Mobile Security Solutions

D13's holds innovative Low Probability Intercept-Low Probability Detection (LPI/LPD) IP for communications purposes. This enables a user to secretly communicate via cell phone in an innovative way, hiding messages in the usual electronic "noise" and distortions. D13 anticipates this to be highly attractive to defense and commercial customers.

Additionally, D13's Deckard Secure Mobile Operating System is resistant to hacking and allows users to securely use their phones, ensuring user's data is secure and safe from theft.

Communications Networking

D13 is aiming to transform the telecommunications industry with its Coop MIMO communications networking system. Coop MIMO will aim to equip cellular providers with long-range, low-power terabyte Wi-Fi networks at a fraction of the cost of current providers.

D13's cloud-based Coop MIMO can be rapidly deployed and has proven to dramatically increase data rates in both wired and wireless communications between 5 to 20 times. The system does not require any additional infrastructure, instead joining via the network.

Coop MIMO-Sub Space Coding is a software solution that requires no special hardware and can run on simple sensors, smart phones, servers, or satellites. This massively increases useable bandwidth, decreases round tripping, increases reliability, and security. Sub-Space Coding can run on top of any major protocol from TCP/IP, UDP, and the like. This methodology is useful in almost any use case where increased bandwidth is needed from streaming sites, to gaming, to satellite communications and to massive data exchange sites.

Proposed new Directors post-acquisition include:

Gavin Rezos, Chairman

- Extensive international investment banking experience
- A Principal of Washington DC-based Viaticus Capital LLC
- Held CEO and Chairman Roles in public listed companies in the US and Australia
- Chairman of Alexium International (AJX) & Non-Executive Director of Iluka Resources (ILU)

Jonathan Hunter, Executive Director (CEO of D13)

- Former Advisor to the US National Academy of Science on defense technology
- More than 25 years' experience in leadership positions within the US Military and US Government Advisory Committees.

Robi Sen, Executive Director (CTO of D13)

- Communications Industry professional with a 25-year career in IT, engineering, and research on cutting edge projects for NASA, US Department of Energy and US Department of Defense
- Has authored and co-authored numerous technical books including three books on Android Systems
- Over 15 years experience in Senior and Executive management

Al Teller, Non-Executive Director (current Consultant to D13)

- Former Chairman and CEO of the MCA Music Entertainment Group, Former President of Columbia Records and CBS Records.
- Two engineering degrees from Columbia University; MBA from Harvard Business School
- President Bill Clinton's appointee to the US National Information Infrastructure (NII) Advisory Council.

The Transaction

KNE, D13, the majority shareholders of D13 (**Majority Shareholders**) and Viaticus Capital LLC (**Viaticus**) have executed a binding heads of agreement pursuant to which Kunene has agreed to make an offer to acquire 100% of the membership interests in D13 (**D13 Shares**) from the shareholders in D13 (**D13 Shareholders**) (**Heads of Agreement**) (**Transaction**).

D13 has seven shareholders, all of whom have entered into an operating agreement in February 2010, updated and amended in February 2015, under which they have agreed to drag along rights in the event that D13 Shareholders holding at least 50% of the outstanding membership interests in D13 agree to sell their membership interests to a third party (**Drag Along Rights**). The Majority Shareholders have agreed to be bound by the Heads of Agreement and thereafter enforce the Drag Along Rights to procure the other shareholders in D13 (**Minority Shareholders**) accept the same offer by KNE made under a more short form adherence agreement (**Minority Shareholder Offer**). The Minority Shareholders have all indicated their consent to D13.

Under the terms of the Heads of Agreement, the consideration to be paid to the D13 Shareholders for the transfer of the aggregate of all D13 Shares will be the issue of:

- (a) 200,000,000 fully paid ordinary shares in the capital of Kunene (a fully paid ordinary share in KNE being a **KNE Share**) at a deemed issue price of A\$0.025 (the **Ordinary Consideration Shares**); and
- (b) 200,000,000 performance shares that convert into KNE Shares (on a one-for-one basis) (**Performance Shares**) in the event that the 20 trading day volume weighted average price of KNE Shares as traded on ASX equals or exceeds \$0.05 and one of the following other milestones is achieved within three years from the date of issue:
 - a. D13 commences first commercial sales of Drone Defense products;
 - b. D13 enters into a licencing agreement for any of its technologies with a National or State Government Agency or significant multi-national corporation;
 - c. D13 enters into a licence agreement for any of its technologies with a supplier to a National or State government agency;
 - d. D13 enters into a joint venture agreement with a large network or mobile company or a supplier to law enforcement, defense or military;
 - e. the cumulative value of grants provided to D13 equals or exceeds US\$3m; or
 - f. KNE (or a spin off entity of KNE) lists on the NASDAQ, OTC QX or NYSE Markets.

D13 appointed Viaticus Capital LLC (**Viaticus**) under a Term Sheet & Mandate Agreement dated 5th August 2015 with a three-year term to exclusively raise capital for D13 and provide services to D13 in relation to arranging and managing a reverse merger of D13 with an ASX public listed company (**Reverse Merger**).

Simultaneously, with execution of this Heads of Agreement, D13, Viaticus and KNE entered into a deed of covenant whereby, inter alia, KNE will pay to Viaticus or its nominees, at Settlement, an option fee equal to \$500,000 that will be satisfied through the issue of KNE Share at an issue price of \$0.025 each (a total of 20,000,000 KNE Shares) (**Option Fee Shares**).

In addition, as the introducer of the acquisition of D13 to Kunene, the parties have agreed that the Company will issue, at settlement of the Transaction (**Settlement**), to Viaticus or its nominees a total of 45,000,000 KNE Shares, 45,000,000 Performance Shares and 78,185,500 unlisted options each to acquire one KNE Share (exercise price \$0.025 and expiry date 5 years from Settlement).

Kunene has also agreed to issue approximately 40,000,000 fully paid ordinary shares at 2.5c each to lenders of \$1million of investor loans to be made to D13 under a Loan Agreement dated 1st September 2015 with Viaticus as agent and arranger.

The Heads of Agreement provides for the appointment of 4 (four) new directors of Kunene nominated by D13 (New Directors). At Settlement of the Transaction Kunene will be required to procure the resignation of the existing directors of the Company. The Heads of Agreement also require shareholders to approve a Performance Rights Plan for the issue of 35,000,000 Director Performance Shares to the New Directors and 50,000,000 Employee Performance Shares to the employees of D13, the terms of which, in each case, match the terms of the Performance Shares save that there will be an additional term requiring a 12 month holding lock post vesting.

The Kunene directors have agreed to convert (subject to shareholder approval) up to \$115,000 of outstanding directors fees and termination payments into 4,600,000 (at a deemed issue price of \$0.025) ordinary shares in the Company.

Settlement Conditions

The agreement is subject to a number of conditions precedent, including (without limitation) the following:

- (a) Completion of due diligence by KNE by no later than 30 September 2015;
- (b) Completion of due diligence by D13 on KNE by no later than 30 September 2015;
- (c) KNE undertaking a capital raising of a minimum of \$4,000,000 under the Prospectus through the issue of KNE Shares at a price of not less than \$0.04 each (**Capital Raising**);
- (d) KNE obtaining all necessary shareholder approvals required by the *Corporations Act 2001* (Cth) (**Corporations Act**) and the ASX Listing Rules in relation to the Acquisition;

- (e) The Parties obtaining all necessary regulatory approvals pursuant to the ASX Listing Rules, Corporations Act or any other law on terms acceptable to the Parties as are required to allow the Parties to lawfully complete the matters set out in this Heads of Agreement;
- (f) KNE either selling or winding up all of its subsidiaries;
- (g) If required, each of the Shareholders waiving all pre-emptive and other rights over any of the D13 Shares conferred by the constituent documents of D13, the Operating Agreement or in any other way (if any); and
- (h) To the extent required by the ASX, KNE or the ASX Listing Rules, each Shareholder and any party to whom Option Fee Shares, Introducer Securities or Loan Shares are issued, entering into a restriction agreement as required by ASX imposing such restrictions on trading of those securities as mandated by the ASX Listing Rules in respect of the KNE securities that are issued to those parties by KNE,

If the conditions are not satisfied by the date that is five months from the date of the Heads of Agreement (or such later date as D13 and Kunene may agree) (**End Date**), then either party may terminate the Heads of Agreement.

Re-Compliance with Chapters 1 and 2 of the ASX Listing Rules

As the Transaction will constitute a significant change in the nature and scale of Kunene's activities, the Company will be required to re-comply with the listing requirements set out in Chapters 1 and 2 of the ASX Listing Rules (including preparing a full form prospectus). This re-compliance will be accompanied by a minimum capital raising of \$4,000,000 to provide additional working capital for the new business.

If the Transaction proceeds, Kunene intends to divest all of its existing mineral projects and will change its name to reflect its new business.

Anticipated Timetable of Key Events

Event	Date
Announcement of the Transaction	3 September 2015
Dispatch of Notice of Meeting to Kunene shareholders for approvals required under the ASX Listing Rules and Corporations Act for the Transaction	14 October 2015
Lodgement of Prospectus for Capital Raising	30 October 2015
General Meeting of Kunene shareholders	13 November 2015
Capital Raising under Prospectus closes	17 November 2015
Completion of the Transaction	26 November 2015
Commencement of trading of Kunene shares on ASX (subject to any re-compliance with the ASX Listing Rules required by ASX)	7 December 2015

Proposed changes to capital structure

As a result of the Transaction the Company's capital structure will change approximately as follows:

	Current	Proposed shares	Proposed perf. shares and options
Currently on issue	38,903,500		
To be issued under FQM convertible note	5,000,000		
Option Fee \$500k		20,000,000	
Redeem D13 \$1m Loan		40,000,000	
Issued to D13 shareholders		200,000,000	
Issued to D13 shareholders (perf. shares)			200,000,000
Issued to Viaticus Nominees		45,000,000	
Issued to Viaticus Nominees (perf. shares)			45,000,000
Viaticus Nominees 5 Year Options			78,350,000
Director Performance Shares			35,000,000
Employee Performance Share Plan			50,000,000
Conversion of Kunene directors debts		4,600,000	
Capital raising		TBC	
Total	43,903,500	309,600,000	408,350,000
Total post completion subject to capital raising price		353,503,500	
Total fully diluted subject to capital raising price			761,853,500

Consolidated Pro Forma unaudited accounts 31 July 2015

If the transaction proceeds, it is expected to have the following effect on Kunene's total assets, equity, revenue and profit before tax and extra ordinary items.

	Kunene Accounts (Pre-Acquisition) 31 July 2015 unaudited management accounts	Consolidated Pro Forma Accounts 31 July 2015 unaudited accounts
Total Assets	302,033	14,257,033
Total Equity	302,033	14,417,033

Assumptions:

1. The issue of 200,000,000 ordinary shares in Kunene at deemed price of \$0.025 per share for the acquisition;
2. The issue of 200,000,000 performance shares in Kunene at deemed price of \$0.025 per share for the acquisition;
3. The issue of 20,000,000 ordinary shares in Kunene at deemed price of \$0.025 per share for the Option Fee Share to Viaticus;
4. The issue of 45,000,000 ordinary shares, 45,000,000 performance shares and 78,350,500 unlisted options (exercise price \$0.025 and expiry 5 years from settlement) in Kunene at deemed price of \$0.025 per share (Nil value attributable to the options) to Viaticus (introducer fee);
5. Conversion of \$1,000,000 working capital loan to D13 into Kunene shares at a price of \$0.025 (40,000,000 shares);
6. The issue of 85,000,000 performance shares in Kunene at deemed price of \$0.025 per share to directors and employees;
7. The issue of 100,000,000 shares in Kunene at \$0.04 per share to raise \$4,000,000 pursuant to the capital raising;
8. Past unpaid director fees of \$160,000 be satisfied by the issue of 4,600,000 at deemed price of \$0.025 per share (\$115,000) and \$45,000 cash; and
9. The net assets of D13.

Kunene currently earns no operating revenue. It has minimal other income earned through interest income on its cash reserves.

In the 6 month period from 1 January 2015 to 30 June 2015, D13 recorded consulting and sundry revenue of \$203,998. Expenses for the same period were \$143,452 resulting in a reported net profit before tax of \$60,546. It is noted that the operations post the acquisition are expected to increase significantly. Detailed information regarding the financial effect of the acquisition will be contained in the further transaction documents that will be prepared in due course, including the notice of meeting and prospectus should the acquisition proceed.

For further enquiries please contact:

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Viaticus Capital LLC is a corporate advisory business founded in 2001 and now based in Washington DC with offices in London and an associate office in Perth, WA. Viaticus has been an arranger and corporate advisor in the introduction of new technology based businesses to ASX listed companies by way of reverse merger for Alexium International Group Limited (ASX:AJX), Yowie Group Limited (ASX:YOW) and pSivida Corp (NASDAQ: PSDV, ASX PVA). www.viaticuscapital.com.