

## September Quarterly Report

### Agreement to acquire Department 13 LLC

- Drone defense, cyber security and radio frequency (RF) software communications and networking company based in Virginia, USA which has research and development contracts with multiple US Government agencies
- Requires recompliance with Chapters 1 and 2 of the ASX Listing Rules
  - Shareholder approval to be sought at AGM
  - Prospectus to be prepared
  - Minimum capital raising of \$4,000,000
- Strong proposed board to be appointed following completion

### Kaoko Project exploration completed

- Final drill results received
  - Total of 15 boreholes for 1360.7m diamond drilling and 1537m of RC drilling
  - Tested targets at Dolomite Ore Formation, Okanihova South-West, Okanihova Central, Ombazu
  - No compelling results
- First Quantum withdrew from Kaoko Project joint venture

### Disposal of resources assets

- Agreements signed to dispose of resources assets in Namibia and Portugal
- Meets condition precedent under acquisition of D13
- Sale of Kaoko Project subject to shareholder approval



#### FAST FACTS

##### Capital Structure

Shares on Issue: 43.9 million

Market Cap @ 12.5c \$5.5 million

Cash on hand \$0.26 million

(30 September 2015)

##### Corporate Directory

###### Directors

Philip Werrett

Peter Pawlowitsch

###### Managing Director

Brandon Munro

###### Company Secretary

Ian Hobson

##### Company Highlights

Acquiring Department 13 LLC drone defense, cyber security and radio frequency (RF) software communications and networking company

##### Contact Details

###### Place of Business

Level 1, 6 Thelma Street

West Perth 6005

###### Website

[www.kuneneresources.com](http://www.kuneneresources.com)

ASX Code: KNE

ABN 36 155 396 893

## Acquisition of Department 13 LLC

On 3 September 2015, Kunene announced that it had entered into an agreement to acquire Department 13 LLC (**D13**), 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.

The Company executed a conditional, binding Heads of Agreement with D13, the majority shareholders of D13 (**Majority Shareholders**) and Viaticus Capital LLC (**Viaticus**) 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**).

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 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. the Company (or a spin off entity of the Company) lists on the NASDAQ, OTC QX or NYSE Markets.

D13 appointed 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.

Simultaneously, with execution of this Heads of Agreement, D13, Viaticus and Kunene entered into a deed of covenant whereby, inter alia, Kunene 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 Shares at an issue price of \$0.025 each (a total of 20,000,000 KNE 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 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 1 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 proposed new board structure following completion of the acquisition of D13 is (a biography of each proposed director can be found in the Company's Notice of Annual General Meeting issued on 29 October 2015):

Chairman and Chief Executive Officer: Mr Jonathan Hunter

Executive Director Government Relations: Dr Kathleen Kiernan

Executive Director Commercial, Mr Al Teller

Non-Executive Director, Mr Gavin Rezos

Non-Executive Director, Mr Phil George

The Company's current directors have agreed to convert (subject to shareholder approval) \$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 Heads of Agreement is subject to a number of conditions precedent, including (without limitation) the following:

- (a) Completion of due diligence by Kunene (completed on 30 September 2015);
- (b) Completion of due diligence by D13 on Kunene (completed on 30 September 2015);
- (c) The Company 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 (to be sought at the Company's Annual General Meeting on 30 November 2015);
- (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 the Heads of Agreement;
- (f) Kunene 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 (completed); and
- (h) To the extent required by the ASX, Kunene 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), 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 will change its name to Department 13 Limited.

### **Shareholder approval**

The Company is required to obtain shareholder approval for the Transaction, with the resolutions to be put to shareholders at the Company's Annual General Meeting on 30 November 2015. A notice of meeting has been distributed to shareholders in this regard.

Further details on the proposed transaction can be found in the Company's announcement dated 3 September 2015

### **Kaoko Project exploration completed**

During the quarter the Company received the final assay results for the drilling undertaken at its 95% owned Kaoko Project. The drilling campaign was largely undertaken with funds provided by First Quantum Minerals under the Kaoko Project joint venture. The drilling campaign was conducted from May to August 2015 and consisted of a total of 15 boreholes for 1360.7 metres of diamond drilling and 1537 metres of RC drilling. On 13 July 2015 the Company announced the results of drilling of two diamond boreholes at the Dolomite Ore Formation.

Drilling consisted of the following target areas on Exclusive Prospecting Licences 4347 and 4346 (see Tables 1a, 1b and 1c below for significant results):

#### **(a) Dolomite Ore Formation ("DOF") (copper-cobalt target)**

- 2 boreholes for a total of 270.1 metres of diamond drilling
- Confirmed first discovery of copper-cobalt mineralisation in Namibia
- Best results (full results announced on 13 July 2015):
  - 8m @ 0.54% Cu + 1137ppm Co + 0.53% Zn from 60.4m, *including* 2.1m @ 1.0% Cu + 1012ppm Co from 60.4m (drill hole DOF02).
  - 4.65m @ 0.55% Cu + 1153ppm Co + 0.59% Zn from 106.65m, *including* 2.1m @ 0.84% Cu + 1129ppm Co from 106.65m (drill hole DOF01).

#### **(b) Okanihova South-West (copper target)**

- 6 boreholes (KHRC02-KHRC07) for a total of 1230 metres of RC drilling and 296.35 metres of diamond drilling
- Copper mineralisation was only intersected in the central section of the Okanihova lineament with the typical chalcopyrite-pyrrhotite mineralisation known from the initial Okanihova target. Magnetic anomalies further to the southwest along the Okanihova lineament intersected intensive but barren hydrothermal pyrrhotite mineralisation, likely representing a distal end-member of the hydrothermal system.
- Best results (full results announced on 21 September 2015)
  - 10m @ 0.34% Cu from 63-73m, *including* 3m @ 0.71% Cu from 65-68 m (drill hole KHRC02).

#### **(c) Okanihova Central (copper target)**

- (KHRC01, KHRC08) 2 boreholes for a total of 307 metres of RC drilling
- Although copper mineralisation was intersected in both holes, the limited drilling campaign did not identify grade of economic interest at the western part of the Okanihova Central target.

- Best results (full results announced on 21 September 2015)
  - 26m @ 0.13% Cu from 65-91m, including 1m @ 0.46% Cu from 67-68m (drill hole KHRC08).

(d) Ombazu (conceptual base metal target)

- 4 boreholes for a total of 573 metres of diamond drilling
- All boreholes intersected intense pyrrhotite mineralisation in carbonaceous black shales.
- No significant results.

(e) NOTZ (lead-zinc-silver-copper target)

- 1 borehole was drilled for a total of 221.25 metres of diamond drilling
- The borehole intersected the MVT style Pb-Zn-barite-(Cu) mineralisation with anomalous lead, zinc and silver.
- No significant results.

Borehole	Depth (m)	Northing	Easting	RL	Dip	Az	From (m)	To (m)	Width (m)	Cu %	
KHRC01	213	8022298	342281	1023	80	215	199	208	9	0.12	
KHRC02	190	8020780	340729	984	50	180	63	73	10	0.34	
							<i>Incl</i>	65	68	3	0.71
KHRC03	241	8019839	339014	950	90	000	178	181	3	0.13	
KHRC04	223	8019480	338411	942	70	225	2	30	28	0.15	
								45	50	5	0.23
								80	85	5	0.15
KHRC05	145	8018096	335479	903	90	000	nsr				
KHRC06	211	8016662	332915	904	80	180	nsr				
KHRC07	220	8021854	322153	961	90	000	nsr				
KHRC08	94	8022452	342815	1222	70	215	65	91	26	0.13	
							<i>Incl</i>	67	68	1	0.46

**Table 1a: Results of RC boreholes (ICP analysis)**

Borehole	Depth (m)	Northing	Easting	RL	Dip	Az	From (m)	To (m)	Width (m)	Cu	Co	Zn	Cu(e)*	
DOF01	139.5	8026727	365539	1257	55	200	94.6	111.3	16.55	0.23%	462ppm	0.37%	0.58%	
							<i>Incl</i>	106.65	111.3	4.65	0.55%	1153ppm	0.59%	1.32%
							<i>Incl</i>	106.65	108.75	2.1	0.84%	1129ppm	0.65%	1.62%
DOF02	130.6	8026650	365540	1255	55	200	50.65	68.8	17.55	0.31%	610ppm	0.37%	0.74%	
							<i>Incl</i>	60.8	68.8	8	0.54%	1137ppm	0.53%	1.29%
							<i>Incl</i>	61.5	63.55	2.05	1.0%	1012ppm	0.38%	1.63%

\* Cobalt and zinc values have been converted to copper equivalent values using assumed metal prices as follows: copper price of US\$6000 per tonne; cobalt price of US\$30,000 per tonne; zinc price of US\$2,000 per tonne. The converted cobalt and zinc values are then added to the actual copper values to give a total copper equivalent grade described as % Cu(e). For example, a cobalt value of 1153ppm is equivalent to a copper value of 5,765ppm or 0.58% Cu(e).

**Table 1b: Results of diamond boreholes at DOF (ICP analysis)**

NB: \* denotes that the hole was diamond drilled as an extension of an RC hole (see Table 1a above)

Borehole	Depth (m)	Northing	Easting	RL	Dip	Az	From (m)	To (m)	Width (m)	Pb %	Zn %	Ag ppm	
OMB-01	170.05	8028832	364364	1280	70	223	nsr						
OMB-02	23.50	8027976	365496	1266	70	200	nsr						
OMB-03	106.95	8028301	365540	1264	55	184	nsr						
OMB-04	272.50	8028117	367831	1264	80	192	nsr						
KHRC03*	283.35	8019839	339014	950	90	000	nsr						
KHRC05*	399.00	8018096	335479	903	90	000	nsr						
NOTZDD 01	221.25	8025323	350734	1424	55	190	106	126	20	0.34	0.29	4.4	
							<i>Incl</i>	108	111	3	1.03	0.20	3.9
							<i>Incl</i>	115	117	2	0.41	1.08	5.7
								146	156	10	0.41	0.05	2.6

**Table 1c: Results of diamond boreholes excluding DOF (ICP analysis)**

During the quarter First Quantum Minerals Ltd (**First Quantum**) withdrew from the Kaoko Project joint venture, in accordance with their rights under the Joint Venture Heads of Agreement dated 6 February 2014 (**JV Agreement**).

First Quantum exceeded all its minimum obligations under Phase 1 of the JV Agreement and was required to notify the Company by 30 September 2015 if it intended to proceed to Phase 2, requiring a total spend of US\$7,000,000 (inclusive of expenditure to date) to earn a 51% in the Kaoko Project.

First Quantum's expenditure on the Kaoko Project did not entitle them to any interest in the project.

## Disposal of resources assets

Following the end of the quarter the Company entered into agreements to sell its resources assets (a condition precedent under the Heads of Agreement to acquire D13).

The Company's resources assets consist of the following:

- African Mining Capital 3 Pty Ltd, which is the ultimate holding company for the 95% owned Kaoko Project in Namibia;
- Kunene North Pty Ltd, which is the ultimate holding company for a 95% interest in several ungranted licence applications in Namibia;
- a 49% shareholding in Bolt Resources Pty Ltd, which is the holder of the Alcoutim licence in Portugal;
- various fixed assets held by the Company, all of which are located in Namibia and have been used in the Company's exploration projects.

The Company wrote all the above assets down to a carrying value of zero as at 30 June 2015.

The Company has reached agreement with Dr Rainer Ellmies, the Company's Chief Geologist, to dispose of all the Company's resources assets in exchange for salary and termination benefits that would otherwise be due to Dr Ellmies under his contract with the Company. Dr Ellmies (and/or his nominee purchaser of the assets) is required to give a release and indemnity for the Company's liabilities under the various joint venture contracts. This values the overall transaction at approximately A\$100,000 plus the value of the releases and indemnities. The disposal means the Company will no longer have to fund

the administrative and carrying costs of these assets and associated corporate structures, such costs estimated to be at least \$240,000 per annum (not including exploration expenses that may be required to keep licences in good standing).

Under the terms of the Heads of Agreement to acquire D13, the Company is obliged to dispose of its resources assets (and associated subsidiaries) as a condition precedent to completion of the acquisition of D13 and is obliged to obtain releases and indemnities in respect of those assets. Accordingly, the Company had a very short timeframe in which to conduct a sale process or to otherwise close down the relevant projects.

The Company's board undertook a number of exploratory discussions with third parties that had shown previous interest in the Kaoko Project. However, none of these discussions materialised into offers because of one or more of the following factors:

- a) the Namibian Ministry of Mines and Energy has not processed the renewal applications for the Kaoko Project exploration licences (applied for in April 2015); although the company is not aware of any reasons why the renewal would not be granted, it nonetheless creates substantial uncertainty in the eye of a purchaser;
- a) caution associated with First Quantum Minerals' decision to withdraw from the Kaoko Project joint venture;
- b) the general shortage of exploration funding available for an early stage, African exploration project such as the Kaoko Project;
- c) the current downturn in commodity prices and effect on investor sentiment;
- d) the ambiguous drilling results at the flagship Okanihova target, early stage of the copper-cobalt discovery at the dolomite ore formation target and negative results at all other targets.

The Company also considered the process of closing down all projects and winding up the relevant group entities. This would involve substantial legal and administrative costs associated with relinquishing licences, renegotiating joint venture agreements, winding up subsidiaries in Namibia, Mauritius and Australia, terminating staff and contractors. Further, the time required to fulfil necessary statutory obligations associated with winding up subsidiaries made a close down difficult to achieve within the necessary timeframe.

Accordingly, the Company's board believes that the proposed sale of the Company's resources assets to Dr Ellmies is appropriate in the circumstances and enables the D13 Acquisition to proceed. The sale of the Kaoko Project will require shareholder approval for the disposal of the Company's main undertaking, such approval to be sought at the Company's Annual General Meeting on 30 November 2015.

## Corporate

On 7 August 2015, 34,900,000 KNEO options expired. Each option entitled the holder to acquire a KNE share at an exercise price of \$0.25 per share.

During the quarter the Company announced the resignation of Mr Mike Leech, which was offered in light of the Company's intended change in direction away from the resources sector.

During the quarter the Company issued 5,000,000 fully paid ordinary shares in conversion of a \$1million convertible note subscribed for by First Quantum Minerals.

The Company's cash position is \$0.26 m (as at 30 September 2015).

**For further enquiries please contact:**

**Brandon Munro +61 (0) 409 985 556**

***Competent Person Statement***

*The comments regarding the geology, prospectivity and exploration results, in this document, have been made by Simon Coxhell, (Member Australasian Institute of Mining and Metallurgy), who is a consultant of Kunene Resources Ltd. Mr Coxhell has sufficient experience, relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as Competent Persons as defined in the 2012 Edition of the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mr Coxhell consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

## Annexure 1: Tenement summary

### Kaoko Project, Namibia

Tenement	Status	Interest at beginning of quarter (%)	Interests relinquished, reduced or lapsed (%)	Interests acquired or increased (%)	Interest at end of quarter (%)
EPL 4346	Granted	95	0	0	95
EPL 4347	Granted	95	0	0	95
EPL 4348	Granted	95	0	0	95
EPL 4349	Granted	95	0	0	95
EPL 4350	Granted	95	0	0	95
EPL 4351	Granted	95	0	0	95
EPL 4540	Granted	95	0	0	95
EPL 5601	Granted	95	0	0	95
EPL 3764	Granted	0	0	95	95
EPL 3824	Granted	0	0	95	95
EPL 3825	Granted	0	0	95	95
EPL 4135	Granted	0	0	95	95
EPL 4136	Granted	0	0	95	95