

Kontrol Energy enters into Agreement to Acquire Strategic Blockchain Software Firm, Enters IOTA Cryptocurrency Sector and announces \$10 Million Financing

written by Raj Shah | February 2, 2018

February 2, 2018 ([Source](#)) – Kontrol Energy Corp. (“Kontrol”, or the “Company”) (CSE: KNR, FSE: 1K8) announces that it has entered into a binding Letter of Intent (“LOI”) on January 31, 2018 to acquire a profitable and fast growing Blockchain software development firm (the “Target”) operating a successful Software-as-a-Service (“SaaS”) business that has demonstrated 100% recurring revenue (the “Acquisition”).

The LOI contemplates that Kontrol will acquire 100% of the outstanding shares of the Target. Over the past 2 years, the Target has averaged revenues of approximately \$6.0 million and generated normalized EBITDA of approximately \$1.2 million per year. The Target has an established operating history and entered the blockchain software development business in 2017, attracting a growing portfolio of institutional customers who are seeking to integrate Blockchain and Distributed Ledger Technology (DLT) solutions to better manage their energy consumption, reduce their carbon footprint and improve overall operating performance and efficiency through connected devices and the Internet of Things (“IoT”).

The aggregate purchase price for the Acquisition is \$14,250,000,

subject to adjustments. The initial payment to the vendors of the Target (the “Vendors”) consists of \$8.5 million in cash (less applicable closing adjustments) and \$1.5 million payable in Kontrol common shares at a deemed price per share of \$1.50 per share. The parties have agreed to additional incentive payments of \$3.5 million in cash and \$0.75 million in Kontrol common shares, also at a deemed price of \$1.50 per share, to be paid in 2018 and 2019 subject to the achievement of various performance milestones (the “Performance Milestones”).

On closing, the Vendors will also receive warrants entitling the Vendors to purchase up to 2 million common shares at an exercise price of \$1.50. An additional 2 million warrants are issuable on the same terms subject to certain events occurring. All warrants are to have a 3-year term and will be vested over a three-year period.

The Target is currently developing applications using the **IOTA cryptocurrency** and **developing its own tokenized crypto platform based on IOTA**. The features of the Target’s solutions include, but are not limited to:

- An Open Application Programming Interface (API)
- Peer to Peer marketplace functionality for energy savings, carbon monetization and data analytics
- Crypto/token/fiat wallet (allows conversion between currencies)
- Reward system for energy conservation and corresponding carbon reduction
- Reward system for data feeds and data analytics
- Encrypted cyber-security
- In-app support system
- Document sharing
- Social network features

IOTA is credited for achieving 4 major crypto milestones: zero-

cost transactions, offline transactions, theoretically-infinite scalability, and quantum-computer-proof security. Of note, IOTA does not require any use of mining, making it the most environmentally-friendly cryptocurrency. Each transaction requires the user to validate two other transactions, thereby increasing the speed and efficiency of the network. IOTA's technology is being adopted by leading corporations such as Bosch, VW, Fujitsu and others, putting Kontrol among the leading innovators implementing DLT in production-ready use cases, adding further value to the transaction for Kontrol.

Post-acquisition, Kontrol intends to integrate the Target into the Company's existing distributed energy and carbon reduction solutions. ***"This transformative acquisition will allow Kontrol to vertically integrate Blockchain and DLT technology solutions across our operating platform including our three focus areas of Distributed Energy, Carbon Credits and the Internet of Things (IoT) via our own IoT device, the Kontrol EMS,"*** said Paul Ghezzi, CEO of Kontrol. *"While many Blockchain technology firms are struggling to find real-world commercially viable use cases to grow their customer base and revenues, through this acquisition we will be in a unique leadership position in Canada with significant revenue and the ability to scale in the short and medium term."*

Subject to the completion of the Acquisition, management anticipates pro-forma 2018 revenue and EBITDA run rate to be approximately \$20.0 million and \$2.5 million, respectively.

Completion of the acquisition is subject to the parties completing a binding definitive agreement, completion of the concurrent financing described below, the satisfactory completion of due diligence by Kontrol, and upon the approval of the transaction by Board of Directors of Kontrol and appropriate regulatory approvals.

Proposed \$10 Million Brokered Financing

Kontrol has entered into an agreement with Mackie Research Capital Corporation ("MRCC" or, the "Agent") to act as lead agent and sole bookrunner on behalf of a syndicate of agents, including Echelon Wealth Partners Inc., and Eight Capital, to raise, on a best-efforts private placement basis (the "Financing"), gross proceeds of up to \$10.0 million in subscription receipts ("Subscription Receipts") to be issued at an indicative price of \$1.35 per Subscription Receipt. Members of management and the board plan to participate in the financing alongside investors.

The purchasers of the Subscription Receipts will automatically receive, for no additional consideration and without any action on their part, for every Subscription Receipt held, one unit of the Company (a "Unit") comprised of one common share (a "Common Share") and one common share purchase warrant (each a "Warrant"). Each Warrant will entitle the holder to acquire one common share at an exercise price of \$1.93 per share for a period of 24 months following closing of the Financing. Provided that if, at any time prior to the expiry date of the Warrants, the closing price of the Common Shares on the Canadian Securities Exchange equals or exceeds \$2.90 for 20 consecutive trading days, the Company may, within 15 days of the occurrence of such event, deliver a notice by way of news release to the holders of Warrants accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period"). Any unexercised Warrants shall automatically expire at the end of the Accelerated Exercise Period. (the "Accelerator Clause").

The Company has also granted to the Agent an option (the "Over-Allotment Option") to offer up to an additional 15% in Subscription Receipts prior to closing of the Financing.

The gross proceeds from the sale of Subscription Receipts pursuant to the Financing will be held in escrow pending satisfaction of all conditions precedent to the Acquisition. If the conditions precedent are satisfied at or before 5:00 p.m. (Toronto time) on the date which is 40 days after the closing of the Financing, the net proceeds from the sale of the Subscription Receipts will be released from escrow to the Company. If the conditions precedent to the Acquisition are not satisfied by 5:00 p.m. (Toronto time) within 60 days after the closing of the Financing then the purchase price for the Subscription Receipts will be returned pro rata to the subscribers, together with a pro rata portion of interest earned on the escrowed funds.

The Company will use commercially reasonable efforts to obtain the necessary approvals to list the Common Shares, the Warrants and the Common Shares issuable upon exercise of the Warrants on the Canadian Securities Exchange ("CSE"). All securities issued in the Financing will be subject to a four month hold period from the date of closing of the Financing.

The Subscription Receipts will be offered in all provinces of Canada, including Québec. Completion of the Financing is subject to certain closing conditions, including the receipt of all necessary approvals of the CSE. Subject to satisfaction or waiver of all such conditions, closing of the Financing is expected to occur on or about the week of February 26, 2018.

In addition to the Financing, Kontrol currently has cash on hand of more than \$1.5 million, providing Kontrol with up to \$3.0 million in post-acquisition working capital. Kontrol will seek to use the cash to accelerate its blockchain platform and to pursue additional acquisitions and opportunities in the blockchain technology and cryptocurrency sector.

This press release is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any of the securities in the United States or any other jurisdiction in which such an offer or solicitation is unlawful. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state laws. No public offering of securities will be made in the United States.

About Kontrol Energy

Kontrol Energy Corp. (CSE:KNR) is a leader in energy efficiency solutions and technology. Through a disciplined mergers and acquisition strategy, combined with organic growth, Kontrol Energy Corp. provides market-based energy solutions to our customers designed to reduce their overall cost of energy while providing a corresponding reduction in Greenhouse Gas (GHG) emissions.

Additional information about Kontrol Energy Corp. can be found on its website at www.kontrolenergy.com and by reviewing its profile on SEDAR at www.sedar.com

About IOTA

IOTA is an open-source distributed ledger protocol that goes beyond blockchain through its core invention of the blockless Tangle. The IOTA Tangle is a quantum-proof Directed Acyclic Graph, with no fees on transactions and no fixed limit on how many transactions can be confirmed per second in the network. Instead, throughput grows in conjunction with activity in the network; the more activity, the faster the network. Unlike

traditional blockchain architecture, IOTA has no separation between users and validators; rather, validation is an intrinsic property of using the ledger, thus avoiding centralization. IOTA is initially focused on serving as the backbone of the emerging Internet-of-Things (IoT).

In 2017, The IOTA Foundation launched a micropayment-based data marketplace that's powered by the IOTA Tangle. The initiative has gathered the participation from more than 20 global organizations, including corporations such as Deutsche Telekom, Bosch, Microsoft, PriceWaterhouseCoopers, Accenture and Fujitsu. The public marketplace aims to give connected devices the ability to securely transfer, buy and sell fine-granular and diverse data-sets while ultimately facilitating access to data that would otherwise not be monetized.

As per BCG Internet of Things buyer survey, IDC, expert interviews, BCG analysis, with the accelerating adoption of Internet-enabled everyday products, the business-to-business market for the "Internet of Things" (IoT) is anticipated to reach \$267 billion by 2020. As more devices create a near-endless stream of data, the market potential for monetizing data-driven insights is equally significant.

Neither IIROC nor any stock exchange or other securities regulatory authority accepts responsibility for the adequacy or accuracy of this release.

Caution Regarding Forward Looking Statements:

Certain information included in this press release, including information relating to rate of growth of the Target, Kontrol's proposed acquisition of the Target's shares, the growth and nature of the Target's customer portfolio, potential incentive payments to the Vendors, the achievement of performance milestones, the development of applications by the Target,

integration of the Target into Kontrol's existing businesses and blockchain technology across Kontrol's operating platform, Kontrol's anticipated growth in scale and revenue, including anticipated proforma 2018 revenue and EBITDA run rate, and statements related to the Internet of Things and its potential, the provision of solutions to customers to reduce overall energy costs and greenhouse gas emissions reductions, carbon reduction and monetization programs, and statements concerning the brokered financing, including the amount to be raised, the satisfaction of conditions precedent to the acquisition, and the listing of securities issuable pursuant to the financing, and Kontrol's anticipated pro-forma revenue, and other statements that express the expectations of management or estimates of future performance constitute "forward-looking statements". The forward-looking statements in this press release are presented for the purposes of providing information about management's current expectations and plans and such information may not be appropriate for other purposes. Where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief are based on assumptions made in good faith and believed to have a reasonable basis. Such assumptions include, without limitation, that the Target will be successfully integrated into the Company and that its revenues and growth projections will be consistent and meet with the Company's expectations, that the revenue and EBITDA run rate of the Target and the Company's subsidiaries will be consistent with and meet the Company's expectations, that performance milestones will be achieved, that suitable businesses and technologies for acquisition and/or investment will be available, that such acquisitions and or investment transactions will be concluded, that sufficient capital will be available to the Company, that technology will be as effective as anticipated, that organic growth will occur, that the Company will succeed in completing its proposed financing, that all

conditions precedent to the acquisition of the Target will be met within the required timeframes, and others. However, forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such risks include, but are not limited to, that the Target will not be successfully integrated or will not perform as expected, that the revenue and EBITDA run rate of the target and the company's subsidiaries will be less than expected, performance milestones will not be achieved, there being a lack of acquisition and investment opportunities or that such opportunities may not be concluded on reasonable terms, or at all, that sufficient capital and financing cannot be obtained on reasonable terms, or at all, that technologies will not prove as effective as expected that customers and potential customers will not be as accepting of the Company's (including the Target's) product and service offering as expected, and government and regulatory factors impacting cryptocurrency generally and the energy conservation industry. Accordingly, undue reliance should not be placed on forward-looking statements and the forward-looking statements contained in this press release are expressly qualified in their entirety by this cautionary statement. The forward-looking statements contained herein are made as at the date hereof and the Company does not undertake any obligation to update publicly or revise any such forward-looking statements or any forward-looking statements contained in any other documents whether as a result of new information, future events or otherwise, except as required under applicable securities law.