



DRONESHIELD

Quarterly Report

For the Quarter Ended
30 June 2017



Image: French soldier with a DroneGun during successful product trial deployment

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

DroneShield Ltd (ASX:DRO) (“DroneShield” or the “Company”) is pleased to provide the following update on its activities during the three-month period ended 30 June 2017 and its Appendix 4C quarterly cash flow report for the same period.

Key Developments

DroneShield made significant progress in the quarter to June 30, 2017. The key developments included the following.

- The Company launched DroneSentinel, a multi-sensor detection product, and DroneSentry, an integrated multi-sensor detect-and-defeat product.
 - The introduction of DroneSentinel and DroneSentry has streamlined the Company’s offerings into three key product lines – DroneSentinel, DroneSentry and DroneGun.
 - DroneSentinel and DroneSentry consist of the following components - RadarOne (radar based drone detection), RFOne (radiofrequency based drone detection), DroneOpt and DroneHeat (optical and thermal cameras), WideAlert and FarAlert (the Company’s legacy acoustic detection), DroneBeam (optical range extender and optical disruptor) and DroneCannon (fixed site jammer).
 - Customers are able to select these detection and countermeasure modules as appropriate for their specifications and budget. By way of example, a customer may elect to include all six detection methods in its DroneSentinel product, or choose only two detection technologies (eg radar and acoustics) if they have a limited budget.
 - The above components are also available as standalone products.
- The inclusion of these multiple detection methods makes DroneSentinel and DroneSentry the most comprehensive and diverse drone detection and mitigation solution globally. The Company is not aware of any other product which includes all of the detection methods described above.



Image: DroneShield’s DroneSentry (artist’s rendering)

- The Company made several sales in the quarter totalling \$115,000, including a sale of its DroneGun tactical drone jammer product to the military of a G7 country through the Company’s distributor. It is understood that this DroneGun will be deployed for testing in the Middle East. While the fact that the sale involved only one test unit means that the revenue from the sale is not material, the sale is important in that this is the first sale of DroneGun to the military of a G7 country. The sale illustrated the increased need for drone security systems globally and the increased acceptance of DroneShield as a leader in the industry, capable of delivering an immediate working and cost-effective solution to its end users, without the need for further development.

- The French military and other French government agencies continued their evaluation process for DroneGun, and certified DroneGun as compliant under the French military's Dangers des Rayonnements Electromagnétiques sur les Personnels ("DREP") test, which measures electromagnetic emission levels on human users. The test is part of the French defence procurement processes. It is also accepted by other European countries.
- DroneShield continued to conduct a number of demonstrations to various militaries globally, including a scheduled demonstration for the United States Department of Defense in September.
- The company exhibited at IFSEC, the largest security trade show in Europe, in June 2017. The conference attracts a number of high caliber distributors globally, which closely ties into DroneShield's distributor strategy. DroneShield has also attended the Counter UAS 2017 conference in London, alongside a number of international militaries focused on acquiring counterdrone solutions.

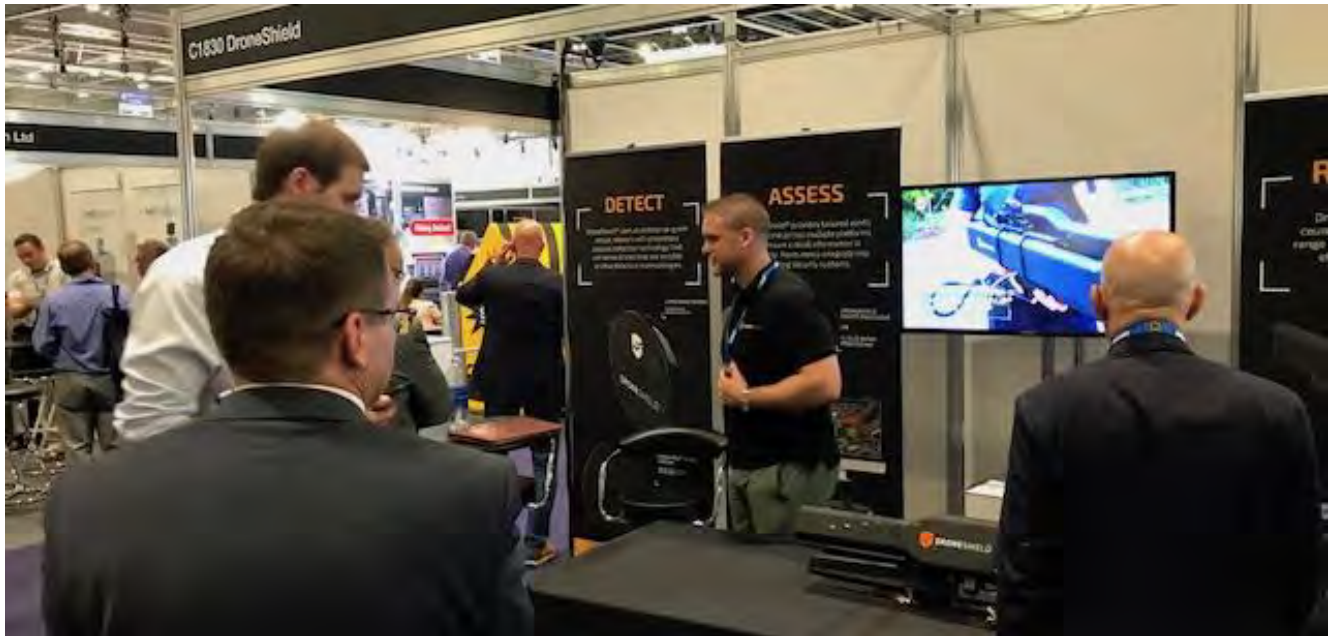


Image: DroneShield booth at the IFSEC conference in London

- The Company appointed Cassidy & Associates, Inc. ("Cassidy"), a pre-eminent Washington, DC government relations firm, whereby Cassidy will advise the Company on contracting with U.S. government agencies, contracts in connection with U.S. federal government budgetary allocations, as well as on other U.S. federal government relations matters.
 - Cassidy is a leading bipartisan government relations firm with a particular focus on defence, and expertise in budgetary appropriations, federal procurement processes, and warfighter modernization programs.
 - Cassidy's DroneShield advisory effort is headed by Cassidy's head of Defense practice Terry Paul, a retired U.S. Marine Corps General, who is best known in Washington for his experience as the Marine Corps liaison officer in the U.S. Senate, a post he held for an unprecedented ten years.



Image: General Terry Paul (Ret)

- The press continued its extensive coverage of DroneShield. Among many press reports on DroneShield were the following:
 - DroneShield Unveils Security System for Detecting and Disabling Invasive Drones (*Seeker*, 10 July)¹
 - Got a drone problem? DroneShield open orders for DroneSentry and DroneSentinel (*NewsShooter*, 5 July)²
 - DroneSentry jamming system open for orders (*New Atlas*, 5 July)³
 - DroneShield Opens Orders for DroneSentry and DroneSentinel (*sUAS News*, 5 July)⁴
 - DroneShield New Device Detects and Jams Rogue Drones (*dronelife*, 4 July)⁵
 - DroneGun Passes French Military DREP Standards (*American Security Today*, 16 June)⁶

- The Company's U.S. subsidiary DroneShield, LLC employed Ryan M. Vervack as its Chief Technology Officer. Mr. Vervack has held management positions within multiple defense contractors. Prior DroneShield, he was the CTO for National Programs at CACI International Inc. (NYSE:CACI), a New York Stock Exchange-listed defence contractor with multi-billion dollar revenue and approximately US\$3bn in market capitalisation. The National Programs division is CACI's government services group with annual revenues of approximately US\$400m, and was acquired by CACI from L-3 Technologies in 2016 for approximately US\$500m, with Mr. Vervack joining CACI as part of the acquisition. Mr. Vervack previous roles included senior positions with Lockheed Martin and Leica Geosystems. Mr. Vervack has a BS in Applied and Discrete Mathematics from Virginia Tech, and an MS in Management of Information Technology from the University of Virginia.



Image: Ryan. M. Vervack, DroneShield's Chief Technology Officer (US)

- DroneShield has been awarded two additional patents and one allowed application (expected to be shortly converted into an additional patent) by the United States Patent and Trademark Office. The patents relate to acoustic detection of drones.
- The Company conducted its first AGM in Sydney in April 2017, with a substantial shareholder support and all resolutions passing by a significant majority.
- DroneShield launched a new website (www.droneshield.com), as part of its continued focus on effective marketing to its global customers.
- DroneShield moved into new and larger premises in Vint Hill, Virginia, consolidating two existing U.S. sites into a single location. The new site allows for effective customer demos, with a dedicated control room simulating customer experience for the demos.
- The Company successfully completed a \$1.25m Share Purchase Plan and Placement capital raising in June 2017.
- DroneShield ended the quarter with approximately \$2.8m in cash.
- DroneShield's in-house and distributor salesforce continued to progress a large number of opportunities, with several orders in advanced stages, including participating in a number of government procurement processes, the outcome of which is expected be determined in calendar year 2017.

¹ <https://www.seeker.com/tech/droneshield-unveils-security-system-for-detecting-and-disabling-invasive-drones>

² <http://www.newsshooter.com/2017/07/05/got-a-drone-problem-droneshield-open-orders-for-dronesentry-and-dronesentinel/>

³ <http://newatlas.com/dronesentry-drone-jamming-system/50361/>

⁴ https://www.suasnews.com/2017/07/droneshield-opens-orders-dronesentry-dronesentinel/?utm_source=DroneNewsDailyEmailMore&mc_cid=9efe4ffb9e&mc_eid=2bddb77006

⁵ <http://dronelife.com/2017/07/04/droneshield-new-device-detects-jams-rogue-drones/>

⁶ <https://americansecuritytoday.com/dronegun-passes-french-military-drep-standards-see-action/>



Image: Recent DroneShield demonstration to a Government customer of a European country

Environment

The overall global demand for drone detection and mitigation products continued to rapidly rise. Please see <https://www.droneshield.com/press-coverage> and <https://twitter.com/DroneShield> for more information. Examples of recent relevant drone-related incidents and concerns, public statements by officials, and media coverage about relevant issues included the following (all in the last month alone).

- A high number of near misses with aircraft continue to be reported globally, with experts warning of deadly consequences in a collision. These included:
 - A US Airforce F-22 Raptor pilot coming in for a landing barely avoided colliding with a drone.
 - Medical helicopter at Sioux Falls (USA) reporting a near collision.
 - Firefighting air tankers and helicopters being grounded twice in San Diego County due to drones flying in the fire area, with another drone operator in Arizona facing 14 felony charges over firefighting aircraft being grounded by a drone. Cal Fire (California fire department) alerted the public to the critical state of the problem with Tony Meham (Cal Fire Chief) making a statement about drones hindering firefighting flights in California.
 - Drone flying close to aircraft at Parafield Airport in Adelaide.
 - Dubai airport shutting down in several separate incidents, with reported cost of US\$100,000/minute, and shutdowns lasting 30min to over an hour each.
 - Gatwick Airport closing runway due to a drone. The UK's Airprox Board, which investigates air incidents, says there have been 33 reported cases of drones flying near aircraft in 2017 already.
 - Airliner coming within 200ft of crashing into drone above County Durham (UK).
 - Drone flying within meters of a Westpac Life Saver Rescue helicopter in Clovelly, Sydney.
- Ongoing multiple reports of drones delivering contraband into prisons continue, including reports at Erlestoke and Warrington in UK, South Carolina, with UK Police setting up a dedicated investigative squad for drone crime. According to a statement from the UK Ministry of Justice, there have been 35 arrests and 11 convictions to date of criminals "involved in drone activity".



Image: A drone carrying phones and drugs, caught flying towards Pentonville prison in London

- Australian drug cartel was reported to be using a drone to spy on the AFP.
- Royal Canadian Mounted Police warned the public about drones flying at Cavendish Beach Music Festival, following drone sightings recorded.
- ISIS continued to develop weaponised drones on significant scale and deploy them against the Iraqi and Western troops. A number of ISIS drone factories have been discovered, including the images below.



Images: ISIS weaponised drone factory

US and other militaries continue to express substantial concern over the use of drones both in the military zones and at home, with Gen. James Holmes, commander of Air Combat Command stating [in relation to a drone coming close to an immediate collision with an F-22 Raptor]: "Imagine a world where somebody flies a couple hundred of those [drones], and flies one down the intake of one of my F-22s with just a small weapon."

Performance Shares

As at 30 June 2017 45,000,000 Performance Shares are on issue. No performance share vesting or conversion milestones were met during the period, and no performance shares were redeemed during the period.

	Performance Shares on issue at start of period (A) ⁷	Performance Shares converted to DRO shares during the period (B)	Performance Shares cancelled during the period (C)	Performance Shares on issue at end of period (A)-(B)-(C)
Class A ⁸	15,000,000	0	0	15,000,000
Class B ⁹	15,000,000	0	0	15,000,000
Class C ¹⁰	15,000,000	0	0	15,000,000
Total	45,000,000	0	0	45,000,000

Cash Balance

As at 30 June 2017, DroneShield had a combined cash balance of \$2.8m as outlined in the accompanying Appendix 4C.

Further Information

Oleg Vornik
CEO and Managing Director
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Tel: +61 2 9995 7280

About DroneShield Limited

Based in Sydney and Virginia, DroneShield is a worldwide leader in drone security technology. The Company has developed the pre-eminent drone security solution that protects people, organisations and critical infrastructure from intrusion from drones. Its leadership brings world-class expertise in engineering and physics, combined with deep experience in defence, intelligence, and aerospace.

ENDS

⁷ Performance Shares were issued to all pre-IPO shareholders at the time of the IPO.

⁸ Each Class A Performance Share will vest into one fully paid ordinary share upon the Shares achieving a 30 day volume weighted average price exceeding \$0.30 and the Company achieving 20 individual installations of the acoustic drone detection system comprising the DroneShield Technology (as defined in the Company's prospectus) within 24 months of the date the Company is admitted to the Official List (Class A Milestone).

⁹ Each Class B Performance Share will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, \$7,000,000 of cumulative revenue or \$2,500,000 of annual revenue in any given twelve month period, within 36 months of the date the Company is admitted to the Official List (Class B Milestone).

¹⁰ Each Class C Performance Share will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, \$3,000,000 of cumulative earnings before interest and taxes (EBIT) or \$1,000,000 of annual EBIT in any given financial year, within 36 months of the date the Company is admitted to the Official List (Class C Milestone).

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

DRONESHIELD LIMITED

ABN

26 608 915 859

Quarter ended ("current quarter")

30 JUNE 2017

Consolidated statement of cash flows	Current quarter \$A	Year to date (6 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	115,424	261,710
1.2 Payments for		
(a) research and development	(231,497)	(358,394)
(b) product manufacturing and operating costs	(66,372)	(99,177)
(c) advertising and marketing	(125,382)	(238,238)
(d) leased assets	-	-
(e) staff costs	(762,295)	(1,457,956)
(f) administration and corporate costs	(401,054)	(683,819)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	16,275	32,624
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material) ¹¹	-	-
1.9 Net cash from / (used in) operating activities	(1,455,459)	(2,543,553)

¹¹ A cash outflow of \$44,386 was reported in 1.8 at 31 March 2017. This amount has subsequently been reclassified to 1.2(f) and is included in the 1.2(f) year to date cashflow.

+ See chapter 19 for defined terms

Consolidated statement of cash flows		Current quarter \$A	Year to date (6 months) \$A
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment ¹²	(227,852)	(234,219)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(227,852)	(234,219)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	1,278,533	1,278,533
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	230,989	966,019
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material) ¹³	(92,631)	(103,123)
3.10	Net cash from / (used in) financing activities	1,416,891	2,141,429

¹² Primarily associated with DroneGun development.

¹³ 3.9 cash flows of \$92,631 for the current quarter relate to costs associated with raising capital.

Consolidated statement of cash flows	Current quarter \$A	Year to date (6 months) \$A
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4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	3,122,071	3,497,077
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,455,205)	(2,543,553)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(227,852)	(234,219)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	1,416,891	2,141,429
4.5 Effect of movement in exchange rates on cash held	(7,516)	(12,351)
4.6 Cash and cash equivalents at end of quarter	2,848,382	2,848,382

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1 Bank balances	1,198,382	722,071
5.2 Call deposits	1,650,000	2,400,000
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,848,382	3,122,071

6. Payments to directors of the entity and their associates	Current quarter \$A
6.1 Aggregate amount of payments to these parties included in item 1.2	147,192
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Compensation payments to Oleg Vornik (Managing Director and CEO) and director fees for the Board members Peter James, Samantha Ravich and Robert Clisdell.

7.	Payments to related entities of the entity and their associates	Current quarter \$A
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	
None		

8.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1	Loan facilities	nil	nil
8.2	Credit standby arrangements	nil	nil
8.3	Other (please specify)	nil	nil
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
None			

9.	Estimated cash outflows for next quarter	\$A
9.1	Research and development	337,000
9.2	Product manufacturing and operating costs	193,000
9.3	Advertising and marketing	65,000
9.4	Leased assets	-
9.5	Staff costs	788,000
9.6	Administration and corporate costs	225,000
9.7	Other (provide details if material)	-
9.8	Total estimated cash outflows	1,608,000

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	-	-
10.2	Place of incorporation or registration	-	-
10.3	Consideration for acquisition or disposal	-	-
10.4	Total net assets	-	-
10.5	Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: Date: 24 July 2017
(Director/Company secretary)

Print name: Anand Sundaraj

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.