

## **Appendix 4D** **For the half-year ended 30 June 2017**

**DroneShield Limited**  
**ABN 26 608 915 859**

### 1. Reporting period

The financial information contained in the attached consolidated financial report is for the half-year ended 30 June 2017. The previous corresponding period was the half-year ended 30 June 2016.

<b>Results for announcement to the market</b>				
	Up/ Down	% Movement		2017 \$
<b>Revenue</b> from continuing activities	Up	863%	to	225,343
<b>Loss</b> from continuing activities after tax attributable to members	Up	20%	to	(2,938,138)
<b>Net loss</b> attributable to members	Up	20%	to	(2,938,138)
<b>Dividends:</b> No dividends are being proposed or have been paid	Nil	Nil		Nil

Additional information:

### 2. Commentary related to the above results

Refer to Directors Report in the attached half-year report.

### 3. Net Tangible Assets per share:

30 June 2017: \$0.02; 31 December 2016: \$0.03.

### 4. There was no change in control during the half-year ended 30 June 2017

### 5. There were no payments of dividends during the half-year

### 6. There is no dividend reinvestment plan in operation

### 7. There are no associates or joint venture entities

### 8. This report is based on the consolidated financial report which has been reviewed by HLB Mann Judd Assurance (NSW) Pty Ltd.

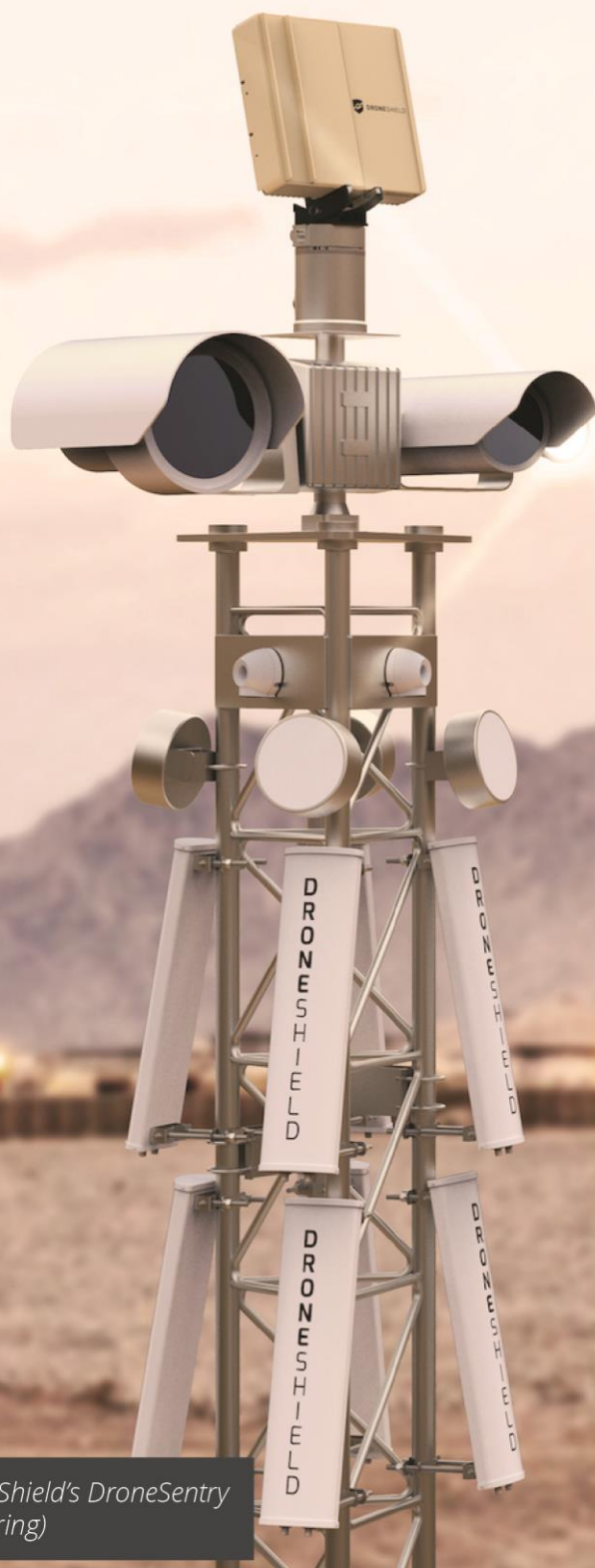
The information contained within this report is to be read in conjunction with DroneShield's 2016 Annual Report and any announcements to the market during the half-year period ending 30 June 2017. Further information regarding the company and its business activities can be obtained by visiting the company's website at [www.droneshield.com](http://www.droneshield.com)



# DRONESHIELD

## Half Year Report

For the Half Year Ended  
30 June 2017



*Image: DroneShield's DroneSentry  
(artist's rendering)*

**DroneShield Limited (ASX:DRO)**

ASX Release

ABN 26 608 915 859

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# Corporate Information

## Directors & Management

**Peter James** Independent Non-Executive Chairman  
**Oleg Vornik** CEO and Managing Director  
**Robert Clisdell** Non-Executive Director  
**Dr. Samantha Ravich** Independent Non-Executive Director

## Registered Office

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Lane Cove West, NSW 2066  
Australia

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Email: [info@dronesshield.com](mailto:info@dronesshield.com)  
Website: [www.dronesshield.com](http://www.dronesshield.com)

## Auditors

**HLB Mann Judd Assurance (NSW) Pty Ltd**  
Level 19, 207 Kent Street  
Sydney, NSW 2000  
Australia

## Bankers

**Commonwealth Bank of Australia**  
Level 21, 201 Sussex Street  
Sydney, NSW 2000  
Australia

**PNC Bank**  
1405 P Street, NW  
Washington DC 20005  
United States of America

## Solicitors

**Steinepreis Paganin**  
16 Milligan Street  
Perth, WA 6000  
Australia

**K&L Gates**  
1601 K Street, NW  
Washington DC 20006  
United States of America

**Moses & Singer**  
The Chrysler Building  
405 Lexington Avenue  
New York NY 10174  
United States of America

## Share Registry

**Automic Pty Ltd t/a Automic Registry Services**  
267 St Georges Terrace  
Perth WA 6000  
Australia

Enquiries (within Australia): 1300 288 664  
Enquiries (outside Australia): +61 8 9324 2099

## Stock Exchange Listing

DroneShield Limited (ASX code DRO) shares and options (ASX code DROO) are quoted on the Australian Securities Exchange.

# Directors' Report

Your Directors present their report for DroneShield Limited (the "Company") and its controlled entities ("the Group") for the half-year ended 30 June 2017.

## Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Name	Position	Effective date
<b>Directors</b>		
Peter James	Independent Non-Executive Chairman	Appointed Independent Non-Executive Chairman 1 April 2016 Appointed Executive Chairman 2 December 2016 Returned to Independent Non-Executive Chairman 24 January 2017
Winton Willesee	Independent Non-Executive Director	Resigned as Director 24 January 2017
Dr. Samantha Ravich	Independent Non-Executive Director	
Robert Clisdell	Non-Executive Director	Appointed 24 January 2017
Oleg Vornik	Executive Director and CFO CEO and Managing Director	Appointed as CEO and Managing Director 24 January 2017

## Business Overview

Based in Sydney, Australia and Virginia, USA, DroneShield is a worldwide leader in drone security technology. The Company has developed and continues to develop security solutions that protect people, organisations and critical infrastructure from intrusion from commercial/consumer grade drones.

The Company's unique products use proprietary software and hardware to detect drones in a combination of radar, radio frequency (RF), acoustic, optical camera and thermal camera based systems and instantly alert users in real-time through multiple channels ensuring any potential threats can be addressed, and interdict drones using radio frequency (RF) jamming.

Historically, the Company relied on acoustic detection in its detection products. During the period to 30 June 2017, in response to end-users' requirements, the Company commenced transitioning from its single-method (acoustic) detection to multiple-method detection products.

The Company's product lines currently include the following:

- DroneGun – a portable tactical rifle drone jammer;
- DroneSentinel – a multi-sensor (radar, RF, acoustics, optical and thermal camera) drone detection system; and
- DroneSentry – an integrated detect-and-defeat system, combining the DroneSentinel module with an RF jammer.

The Company made several sales during the half year period totalling \$225,343. While these revenues have not been material, the sales made by the Company are important as they illustrate 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.

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.

## Review of Operations and Financial Results

The net loss after tax for the half-year was \$2,938,138 (2016: loss of \$2,442,725).

In January 2017, the Board appointed Oleg Vornik, who had been the Chief Financial Officer of the Company for over a year, as the CEO and Managing Director of DroneShield. Additionally, Robert Clisdell and Anand Sundaraj joined DroneShield as Non-Independent Non-Executive Director and Company Secretary respectively, following the resignations of Winton Willesee (Non-Executive Director) and Erlyn Dale (Company Secretary) on 24 January 2017.

Key achievements for the period included:

- High profile customer deployments of the Company's acoustic detection product including office of the Prime Minister of Turkey, deployments by the Swiss Police for the World Economic Forum in Davos, the military of a G7 country, and orders by Asian and European security integrators.
- A number of demonstrations and trial deployments performed or scheduled to be performed in near term, to potential customers at a number of venues. This included militaries of a number of countries globally, including a scheduled demonstration for the United States Department of Defense in September.
- Consistent with the requirements of potential end-users, DroneShield continued its product development activities, including the development of DroneSentinel (multi-method detection product) and DroneSentry (multi-method detect and defeat product), announced shortly after half-year end.
- Protecting Boston Marathon for third year in a row in April 2017, working with the Boston Police Department.
- Expansion across executive, sales, operations, research and development and support teams with appointments in each of these areas.
- The Company appointed Cassidy & Associates, Inc. ("Cassidy"), a pre-eminent Washington, DC government relations firm, whereby Cassidy is advising 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.
- 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 demonstrations, with a dedicated control room simulating customer experience for the demonstrations.
- DroneShield was 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 overall government and civil infrastructure demand for drone detection and mitigation products continued to increase, against the backdrop of nearly daily barrage of news about drone threats. In particular, ISIS has released a number of videos depicting weaponised consumer drones attacking military and civilian targets.
- DroneShield was recognised as one of Westpac's top 20 'Businesses of Tomorrow'.
- The Company continued to attract very substantial positive publicity, with hundreds of articles and news items covering DroneShield globally.

## Significant Events after the Balance Date

Subsequent to 30 June 2017, a contingent liability has arisen in relation to a termination payment made to a former employee of between \$nil and \$195,375, depending on certain contractual milestones.

## Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under the Section 307C of the *Corporations Act 2001* is set out on page 5.

This Directors' Report is made in accordance with a resolution of Directors.



Peter James  
Independent Non-Executive Chairman

Sydney, NSW  
25 August 2017



## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of DroneShield Limited for the half-year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of DroneShield Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'A G Smith'.

Sydney, NSW  
25 August 2017

A G Smith  
Director

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## Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Half-year ended 30 June 2017 \$	Half-year ended 30 June 2016 \$
<b>Revenue</b>	3	<b>225,343</b>	<b>23,397</b>
Other revenue and income		38,434	-
Cost of sales		(221,356)	(21,007)
Product development expense		(818,507)	(224,440)
Sales and customer service expense		(568,764)	(43,697)
Corporate and support expense		(787,713)	(1,143,831)
Corporate governance expense		(231,030)	(160,492)
Share based payment expense	2	(565,996)	(870,597)
Depreciation and amortisation	7	(8,549)	(2,058)
<b>Loss before income tax</b>		<b>(2,938,138)</b>	<b>(2,442,725)</b>
Income tax expense		-	-
<b>Loss after income tax</b>		<b>(2,938,138)</b>	<b>(2,442,725)</b>
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Adjustments on translation of foreign controlled entity		(32,735)	45,320
<b>Total comprehensive loss for the period</b>		<b>(2,970,873)</b>	<b>(2,397,405)</b>
Basic loss per share	10	(0.02)	(0.41)
Diluted loss per share	10	(0.02)	(0.41)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.



# Consolidated Statement of Financial Position

	Note	30 June 2017 \$	31 December 2016 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	2,848,382	3,497,077
Trade and other receivables	5	288,855	266,627
Inventories	6	297,034	238,273
<b>Total current assets</b>		<b>3,434,271</b>	<b>4,001,977</b>
<b>Non-current assets</b>			
Plant, equipment and intangible assets	7	127,532	59,155
<b>Total non-current assets</b>		<b>127,532</b>	<b>59,155</b>
<b>Total assets</b>		<b>3,561,803</b>	<b>4,061,132</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables		108,851	34,757
Provisions		62,974	48,079
Other liabilities		257,671	588,545
<b>Total current liabilities</b>		<b>429,496</b>	<b>671,381</b>
<b>Total liabilities</b>		<b>429,496</b>	<b>671,381</b>
<b>Net assets (deficiency)</b>		<b>3,132,307</b>	<b>3,389,751</b>
<b>EQUITY</b>			
Share capital	8	5,548,426	3,400,993
Reserves		5,617,994	5,478,166
Accumulated losses		(8,034,113)	(5,489,408)
<b>Total equity (deficiency)</b>		<b>3,132,307</b>	<b>3,389,751</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

	Contributed equity \$	Options reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 January 2016</b>	<b>28,320</b>	<b>-</b>	<b>(11,785)</b>	<b>(549,589)</b>	<b>(533,054)</b>
<i>Transactions with owners in their capacity as owners:</i>					
Conversion of convertible notes and warrants into contributed equity	1,203,174	-	-	-	1,203,174
Options issued	-	5,090,347	-	-	5,090,347
Contributions of equity, net of transaction costs	2,141,922	-	-	-	2,141,922
	<u>3,345,096</u>	<u>5,090,347</u>	<u>-</u>	<u>-</u>	<u>8,435,443</u>
Exchange difference on translation of foreign operations	-	-	45,320	-	45,320
Loss for the period	-	-	-	(2,442,725)	(2,442,725)
Total comprehensive loss for the period	-	-	45,320	(2,442,725)	(2,397,405)
<b>Balance at 30 June 2016</b>	<b><u>3,373,416</u></b>	<b><u>5,090,347</u></b>	<b><u>33,535</u></b>	<b><u>(2,992,314)</u></b>	<b><u>5,504,984</u></b>
<b>Balance at 1 January 2017</b>	<b>3,400,993</b>	<b>5,436,686</b>	<b>41,480</b>	<b>(5,489,408)</b>	<b>3,389,751</b>
Transfer from option reserve to accumulated losses	-	(393,433)	-	393,433	-
<i>Transactions with owners in their capacity as owners:</i>					
Options exercised	966,020	-	-	-	966,020
Options issued	-	565,996	-	-	565,996
Contributions of equity, net of transaction costs	1,181,413	-	-	-	1,181,413
	<u>2,147,433</u>	<u>565,996</u>	<u>-</u>	<u>-</u>	<u>2,713,429</u>
Exchange difference on translation of foreign operations	-	-	(32,735)	-	(32,735)
Loss for the period	-	-	-	(2,938,138)	(2,938,138)
Total comprehensive loss for the period	-	-	(32,735)	(2,938,138)	(2,970,873)
<b>Balance at 30 June 2017</b>	<b><u>5,548,426</u></b>	<b><u>5,609,249</u></b>	<b><u>8,745</u></b>	<b><u>(8,034,113)</u></b>	<b><u>3,132,307</u></b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

	Note	Half-year ended 30 June 2017 \$	Half-year ended 30 June 2016 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		261,710	36,794
Payments to suppliers and employees		(3,013,109)	(1,168,794)
<b>Net cash flows from (used in) operating activities</b>		<b>(2,751,399)</b>	<b>(1,132,000)</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(65,002)	(9,812)
<b>Net cash flows from (used in) investing activities</b>		<b>(65,002)</b>	<b>(9,812)</b>
<b>Cash flows from financing activities</b>			
Interest income on cash deposits		32,624	-
Repayment of borrowings		-	(6,173)
Proceeds from option exercise		966,020	-
Proceeds from share and option issue		1,278,590	7,522,398
Share issue transaction costs		(97,177)	(658,408)
<b>Net cash flows from (used in) financing activities</b>		<b>2,180,057</b>	<b>6,857,817</b>
<b>Cash and cash equivalents at beginning of the half-year</b>	4	<b>3,497,077</b>	<b>378,448</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		(636,344)	5,716,005
<b>Exchange rate adjustments to balances held in foreign currencies</b>		(12,351)	(25,858)
<b>Cash and cash equivalents at the end of the half-year</b>	4	<b>2,848,382</b>	<b>6,068,595</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

## Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard (“AASB”) 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in the annual financial report and should be read in conjunction with the most recent annual financial report (being that for the year ended 31 December 2016), and any public announcements made by the Company during the reporting period.

## 1. Summary of Significant Accounting Policies

### (a) Basis of preparation

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

#### *Going Concern*

During the half-year ended 30 June 2017, the Group incurred losses of \$2,938,138 and net cash outflows from operating activities of \$2,751,399, with cash on hand at 30 June 2017 of \$2,848,382.

This consolidated financial report has been prepared on the basis that the Group will continue to meet its commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business.

While current forecasts indicate the Group has sufficient funds to operate for more than 6 months from the date of this report, the Group's ability to continue as a going concern beyond this period is dependent on generating additional revenues from operations, raising further capital and / or reducing costs, thus resulting in a material uncertainty that may cast doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe that there are reasonable grounds to believe that the Group will continue as a going concern after consideration of the following factors:

- the Group expects to generate increased revenues from the sale of DroneGun and DroneShield detection products within the next six months and beyond;
- the Company has the ability to issue additional shares to raise further working capital and has been successful in doing this previously, as evidenced by the successful capital raising completed during financial year ended 31 December 2016 and more recently in June 2017;
- while the market price for the Company's shares remains above the exercise price of its listed options of 22c/share, the Directors expect option holders to exercise their options resulting in further capital inflows – with 4,390,999 already exercised as at 30 June 2017 with proceeds received by the Group of \$966,020, and 30,609,001 remaining listed options with exercise value of \$6,733,980;
- the Group also has the ability to scale down its operations in order to curtail expenditure in the event insufficient cash is available to meet projected expenditure.

# Notes to the Financial Statements *continued*

## 1. Summary of Significant Accounting Policies *continued*

### (b) New accounting standards and interpretations

DroneShield has adopted all of the new, revised or amended Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact to group	Application date of standard	Application date for group
AASB 9 Financial Instruments	AASB 9 is a new standard that replaces AASB 139. The new standard includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and introduces a reformed approach to hedge accounting. The standard is available for early adoption.	The new standard is not expected to have a significant impact on the financial statements.	1 January 2018	1 January 2018
AASB 15 Revenue from contracts with customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer- so the notion of control replaces the existing notion of risks and rewards. The standard is available for early adoption.	The new standard will likely impact the manner in which subscription sales are currently accounted for, potentially advancing a portion of revenue streams relating to hardware when compared with the treatment currently applied which spreads the total revenue over the life of the subscription.	1 January 2018	1 January 2018
AASB 16 Leases	AASB 16 is a new standard that replaces AASB 117. The new standard removes the distinction between operating and finance leases, recognising all lease assets and liabilities on the balance sheet, with limited exceptions for short term leases and leases of low value assets	This standard changes how the group accounts for its current operating leases, which primarily relate to its premises. All such leases will be brought onto the Statement of Financial Position by the recognition of a 'right to use' asset, together with a liability for the present value of lease payments for the life of the lease. The future recognition of lease expenses will change with more expenses recognised in the early periods of a lease.  The group has not yet calculated the financial impact of these changes.	1 January 2019	1 January 2019

## Notes to the Financial Statements *continued*

### 2. Options issued

During the half-year, a number of options were issued to Directors, management and other employees of the entity. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued at various dates between 19 May 2017 and 15 June 2017.

	Class D Options	Class J Options	Class K Options	Other Options <sup>1</sup>	Total option expense for the year
No of new options	2,000,000	450,000	450,000		
Expiry (years) <sup>2</sup>	3	4	5		
Exercise price (\$)	0.30	0.50	0.50		
Vesting period (years)	vest immediately	1	2		
Underlying volatility	87.7%	87.7%	87.7%		
Risk free interest rate	1.92%	2.20%	2.20%		
Calculated fair value of each option (\$)	0.1532	0.1500	0.1647		
Total expense recorded for the period ended 30 June 2017 (\$)	340,163	6,497	3,762	215,573	565,996

<sup>1</sup> An expense of \$215,573 was incurred in relation to option expense relating to the vesting of options within classes D, F and H issued in 2016. Refer to 2016 Annual Report for further details of these options.

<sup>2</sup> Class D, J and K options carry the escrow restrictions of continuous employment to 22 June 2017; 22 June 2018 and 22 June 2019 respectively.

## Notes to the Financial Statements *continued*

	30 June 2017 \$	30 June 2016 \$
<b>3. Revenue</b>		
Subscription sales	51,674	7,155
Hardware sales	154,378	12,947
Shipping income	19,291	3,295
<b>Total revenue</b>	<b>225,343</b>	<b>23,397</b>
	30 June 2017 \$	31 December 2016 \$
<b>4. Cash and cash equivalents</b>		
Cash at bank and in hand	1,198,382	997,077
Short-term deposits	1,650,000	2,500,000
<b>Total cash and cash equivalents</b>	<b>2,848,382</b>	<b>3,497,077</b>
<b>5. Trade and other receivables</b>		
Trade receivables	5,661	87,110
Prepayments	263,194	179,517
Other	20,000	-
<b>Total trade and other receivables</b>	<b>288,855</b>	<b>266,627</b>
<b>6. Inventories</b>		
<b>Finished goods inventory</b>	<b>297,034</b>	<b>238,273</b>

## Notes to the Financial Statements *continued*

### 7. Plant and equipment and intangible assets

	R&D equipment \$	Demonstration equipment \$	Office equipment \$	Intangible Assets (software) \$	Total \$
<b>Balance at 1 January 2017</b>	<b>10,085</b>	<b>11,994</b>	<b>27,997</b>	<b>9,079</b>	<b>59,155</b>
Additions	20,231	11,841	35,455	3,000	70,526
Transfer from Inventory		7,494			7,494
Disposals	-	-	-	-	-
Depreciation/Amortisation	(1,701)	(2,056)	(3,890)	(902)	(8,549)
Exchange differences	(148)	(223)	(722)	-	(1,093)
<b>Balance at 30 June 2017</b>	<b>28,467</b>	<b>29,049</b>	<b>58,839</b>	<b>11,177</b>	<b>127,532</b>

	No. of shares (note a)	\$
<b>Balance at beginning of period (1 January 2017)</b>	<b>135,000,001</b>	<b>3,400,993</b>
Shares issued following option exercise during period (note b)	4,390,999	966,020
Shares issued under Share Purchase Plan and top-up placement (note c)	5,394,893	1,278,590
Transaction costs in relation to Share Purchase Plan and top-up placement	-	(97,177)
<b>Balance at end of period (30 June 2017)</b>	<b>144,785,893</b>	<b>5,548,426</b>

Note (a): The number of shares disclosed is the number of shares in DroneShield Limited.

Note (b): During the first half of 2017, 4,390,999 listed options were exercised, resulting in the issue of one new share in DroneShield Limited for each option. With an exercise price of \$0.22 per option, the total cash received from the exercise of options during the period was \$966,020.

Note (c): In June 2017, the Company issued 5,394,893 shares in a Share Purchase Plan ('SPP') and top-up placement, raising \$1,278,590. The SPP offered eligible shareholders the opportunity to apply for new, fully-paid ordinary shares ('Shares') in the Company. The issue price was based on a 20% discount to the volume weighted average price of Shares traded on the ASX during the five days immediately prior to the issue date of Shares under the SPP.



## Notes to the Financial Statements *continued*

### 9. Shares and options

	Number of Shares	Number of Unlisted Options	Number of Listed DROO options	Number of Performance Shares
Opening balances at 1 January 2017	135,000,001	25,150,000	35,000,000	45,000,000
SPP and top-up shares issued	5,394,893	-		-
Options exercised during the period	4,390,999		(4,390,999)	
Options issued to Directors and Management	-	2,900,000	-	-
<b>Closing balance at 30 June 2017</b>	<b>144,785,893</b>	<b>28,050,000</b>	<b>30,609,001</b>	<b>45,000,000</b>

#### Unlisted Options:

2,900,000 Unlisted Options were issued to Directors and Management during the half-year to 30 June 2017. These Options are subject to various escrow and vesting conditions relating to length of employment with the Company. See note 2 for further details.

#### Listed DROO Options:

During the half-year to 30 June 2017, 4,390,999 listed options were exercised, generating \$966,020 in cash. As at 30 June 2017, 30,609,001 listed options remain, these are exercisable at 22 cents on or before 22 June 2018.

#### Performance shares:

As part of the acquisition of DroneShield LLC by DroneShield Limited, 45,000,000 Performance Shares were issued to DroneShield LLC's existing shareholders. The performance shares carry the following vesting conditions, relating to the achievement of various performance milestones (with Revenue and EBIT targets in relation to the acoustic drone detection system).

Shareholders	Vesting date	Performance Shares	Number on issue
Class A Performance Shares	22-Jun-18	30 day Volume weighted average price ("VWAP") >\$0.30 + 20 paid system installations within 24 months of listing date	15,000,000
Class B Performance Shares	22-Jun-18	Revenue: \$2,500,000 in any 12 month period or \$7,000,000 cumulative within 36 months of listing date	15,000,000
Class C Performance Shares	22-Jun-18	EBIT: \$1,000,000 annual (financial year) or \$3,000,000 cumulative within 36 months of listing date	15,000,000

## Notes to the Financial Statements *continued*

### 10. Earnings (loss) per share

	30 June 2017 \$	30 June 2016 \$
(a) Basic earnings (loss) per share		
Total basic earnings (loss) per share attributable to the ordinary equity holders of the company	(0.02)	(0.41)
(b) Dilutive earnings per share		
Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company	(0.02)	(0.41)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	138,369,155	5,966,852

#### *Options and Performance Shares*

Options on issue (Class A to Class K options- refer to note 2 and DroneShield's 2016 Annual Report) and Performance Shares set out in note 9 are not included in the calculation of diluted earnings per share because they are considered to be antidilutive for the period ended 30 June 2017. These options and shares could potentially dilute basic earnings per share in future periods.

# Notes to the Financial Statements *continued*

## 11. Segment information

The Group operates in one operating segment, being the development and commercialisation of hardware and software technology for drone detection and security.

This operating segment is monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results. The chief operating decision maker of the Group is the CEO.

The following tables present certain information regarding geographical segments for the half years ended 30 June 2017 and 30 June 2016.

Segment performance 30 June 2017	USA \$	Australia \$	Elimination \$	Total \$
External sales	10,326	215,017	-	225,343
Total segment revenue	43,751	40,647	-	225,343
Interest income	-	32,624	-	32,624
Depreciation	(3,148)	(5,401)	-	(8,549)
Finance costs	-	-	-	-
Income tax expense	-	-	-	-
Loss after income tax expense	(1,224,141)	(1,713,997)	-	(2,938,138)
<i>Assets and liabilities</i>				
Segment assets	213,892	4,721,378	(1,373,467)	3,561,803
Segment liabilities	(1,474,203)	(328,759)	1,373,467	(429,496)

Segment performance 30 June 2016	USA \$	Australia \$	Elimination \$	Total \$
External sales	23,397	-	-	23,397
Total segment revenue	23,397	-	-	23,397
Interest income	-	-	-	-
Depreciation	(1,863)	(195)	-	(2,058)
Finance costs	-	-	-	-
Income tax expense	-	-	-	-
Loss after income tax expense	(756,775)	(1,685,950)	-	(2,442,725)
<i>Assets and liabilities</i>				
Segment assets	688,787	5,618,119	(186,494)	6,120,412
Segment liabilities	(570,595)	(231,327)	186,494	(615,428)

## 12. Commitments

At 30 June 2017, contractual agreements existed to pay suppliers a total of \$422,308 for the completion of a number of orders.

## 13. Events after the reporting date

Subsequent to 30 June 2017, a contingent liability has arisen in relation to a termination payment made to a former employee of between \$nil and \$195,375 depending on certain contractual milestones.

## Directors' Declaration

In the opinion of the Directors:

- (a) the consolidated financial statements and notes set out on pages 6 to 17 are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and
  - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Peter James  
Independent Non-Executive Chairman

Sydney, NSW  
25 August 2017



Quality Audit Services

## DRONESHIELD LIMITED

ABN 26 608 915 859

### INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of DroneShield Limited:

We have reviewed the accompanying half-year financial report of DroneShield Limited ("the company") which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

#### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**HLB Mann Judd Assurance (NSW) Pty Ltd ABN 96 153 077 215**

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HLB Mann Judd is a member of  International. A world-wide organisation of accounting firms and business advisers.



**DRONESHIELD LIMITED**

**ACN 608 915 859**

**INDEPENDENT AUDITOR'S REVIEW REPORT (CONTINUED)**

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of DroneShield Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

**Material Uncertainty Regarding Going Concern**

We draw attention to Note 1(a) in the financial report, which indicates that the Group incurred a net loss of \$2,938,138 during the half-year period ended 30 June 2017, and had net assets of \$3,132,307 and cash of \$2,848,382 at 30 June 2017. These events or conditions, along with other matters as set forth in Note 1(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**HLB Mann Judd Assurance (NSW) Pty Ltd**  
**Chartered Accountants**

**A G Smith**  
**Director**

**Sydney, NSW**  
**25 August 2017**