



DRONESHIELD

Quarterly Report

For the Quarter Ended
31 December 2017



*Image: NATO country product trial
in late 2017*

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 31 December 2017 and its Appendix 4C quarterly cash flow report for the same period.

Key Developments

DroneShield made significant progress in the quarter to December 31, 2017. The key developments to the date of this report include the following.

Sales and Marketing

- With the large addressable market consisting of tens of thousands of potential end-users and hundreds of thousands of installations globally, DroneShield's in-house and distributor salesforce continued to progress numerous opportunities, including orders in advanced stages, including participating in a number of government procurement processes.



Image: Korean military officials review DroneGun in Q4 2017



Image: Officials at product trial in Latin America in Q4 2017

- The Company's short-term sales pipeline¹ was summarised in the Investor Presentation released to the ASX on 9 October 2017. A copy of this information is below.

¹ Except as stated elsewhere in this document, these sales opportunities have not resulted in sales, and necessarily not all (and there can be no assurance that any) of these sales opportunities will result in sales.

SHORT-TERM SALES PIPELINE*



End User	Expected Value of the Specific Current Opportunity if Consummated (USD)
United States - multiple military and national security agencies	Cannot be quantified
United Kingdom - multiple military and national security agencies	Cannot be quantified
South Korea - multiple military and national security agencies	Cannot be quantified
Australia - multiple military and national security agencies	Cannot be quantified
France - multiple military and national security agencies	Cannot be quantified
Spain - multiple military and national security agencies	Cannot be quantified
Middle Eastern Country #1 – Ministry of Defence	\$45,000,000
Middle Eastern Country #2 – Ministry of Defence	\$22,000,000
Central American Country #1 – Multiple military and national security agencies	\$7,900,000
South East Asian Country #1 – Government Facilities	\$6,400,000
Central Asian Country #1 - Government Facilities	\$2,500,000
South East Asian Country #2 – Army and Air Force	\$2,000,000
South East Asian Country #3 - Correctional Facilities, Critical Infrastructure and Police	\$1,800,000
South East Asian Country #4 – Royal Police and Government Infrastructure	\$1,100,000

* This slide refers to DroneShield's sales pipeline and specific sales opportunities. However, none of the sales opportunities listed have resulted in sales and, necessarily, not all (and there can be no assurance that any) of these sales opportunities will result in sales.

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SHORT-TERM SALES PIPELINE*



End User	Expected Value of the Specific Current Opportunity if Consummated (USD)
Middle Eastern Country #3 – Royal Court	\$1,000,000
Middle Eastern Country #4 – National Security Agency	Between \$500,000 and \$1,000,000
South East Asian Country #5 – Army	Between \$500,000 and \$1,000,000
African Country #1 – Army, Civil Aviation Authority	Between \$500,000 and \$1,000,000
European Country #1 - Ministry of Defence	Between \$500,000 and \$1,000,000
South American Country #1 – Critical Infrastructure	Less than \$500,000
Central Asian Country #2 – Special Forces	Less than \$500,000
Central American Country #2 – Critical Infrastructure	Less than \$500,000
European Country #2 - Ministry of Defence	Less than \$500,000
South East Asian Country #6 - Ministry of Defence	Less than \$500,000
European Country #3 - Special Forces	Less than \$500,000
South American Country #2 - Prime Minister	Less than \$500,000
South East Asian Country #7 - Critical Infrastructure	Less than \$500,000
South American Country #3 - Multiple military and national security agencies	Less than \$500,000
South East Asian Country #8 - Ministry of Defence	Less than \$500,000
Central Asian Country #2 - Special Forces	Less than \$500,000
African Country #2 – Government Facilities	Less than \$500,000
Other Miscellaneous End User Discussions	Cannot be quantified

*See the footnote on slide 8.

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- The sales opportunities being progressed by the Company are not limited to those set out above, and the Company has added a number of additional substantial sales opportunities to its pipeline during, and after the end of, the quarter. The Company is working on dozens of advanced sales opportunities, ranging from low hundreds of thousands of dollars to tens of millions of dollars, each.
- On 17 November 2017, the Company announced that DroneGun won a tender by the Paraguay military. This paid order was for one test unit, and was placed by the end-user in order to evaluate the product for larger adoption.
- On 27 December 2017, the Company announced that DroneGun MKII product was certified as compliant for human exposure, in connection with requests by potential governmental end-users, in relation to their procurement processes. EMC Technologies, a specialist SAR (Specific Absorption Rate) measurement NATA (National Association of Testing Authorities) approved laboratory for global certifications, certified DroneShield's DroneGun MKII as compliant with the ARPANSA EN 62311 and EN 62209-1 (Australian and New Zealand Communications and Media Authority requirements for human exposure to radio frequencies) within the specific frequency bands of operation which cross references to the international ICNIRP standard. The certification was obtained in response to the DroneGun product advancing through procurement processes with a number of major defence and other government agencies internationally, for which this was a requirement requested by several agencies.

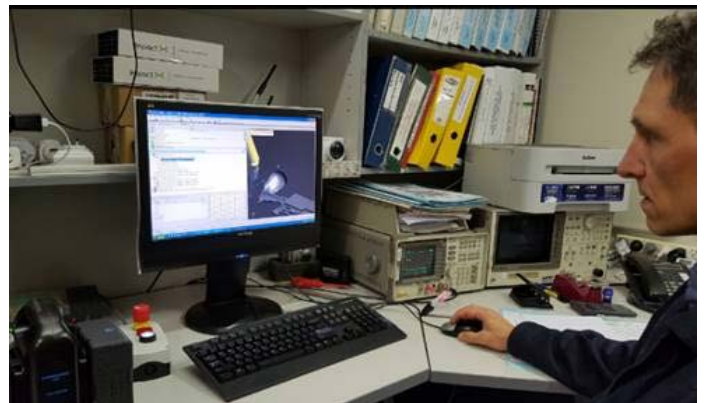


Image: DroneGun undergoing human exposure compliance certification

- Following the completion of the quarter, the Company announced its participation in the 2018 Urban 5th Generation Marine Exploration and Experimentation Exercise ("U5G 18"), organized by the United States Marine Corps Deputy Commandant for Combat Development & Integration ("CD&I") and the Deputy Assistant Secretary of the Navy for Research, Development, Test and Evaluation ("NR&DE"). The U5G 18 event focuses on evaluating new technologies by the United States US Marines, for subsequent acquisition and deployment considerations. The Company is one of a limited number of participants, selected from a large number of applicants to demonstrate its products and technology in these field trials, across a variety of real life counter-unmanned aircraft system simulations.

Corporate

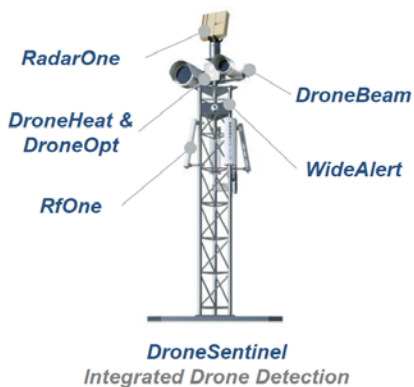
- Following its appointment during the quarter, Mesirow Financial, a 600-person U.S. investment bank with a specialty in aerospace and defence, is continuing its active engagement with a number of parties to explore strategic options. This includes several large defence and security companies, with several parties having signed confidentiality agreements and proceeded into subsequent rounds of discussions.

Product Development

- The Company's current product range is summarised as follows:

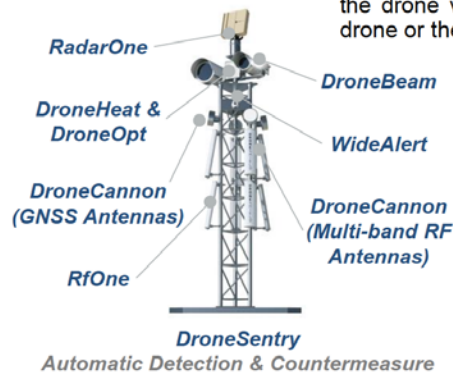
Detection

- ✓ Detects drones using an advanced, highly effective multi-sensor detection system (Radar, RF, Acoustic and Optical / Thermal)
- ✓ High detection rates versus other methods and is available in a low-profile system
- ✓ Provides real-time alerts and offers digital evidence collection
- ✓ Easy integration into existing security systems / platforms



Countermeasures

- ✓ DroneShield offers effective, tactical drone countermeasure capabilities
- ✓ Portable solution – DroneGun – can be carried by a single person
- ✓ Long-range accuracy and effectiveness – can be used against drones with an effective range over 2km (the most powerful ratios of a portable product on the market)
- ✓ Offers safe, "soft-kill" countermeasure capabilities that can safely return a drone to its starting point or descend the drone vertically on the spot without damaging the drone or the surrounding environment



- Following successful completion of DroneGun MKII product in Q3 2017, the Company made a significant progress in developing DroneGun MKIII, a significantly further improved version which incorporates feedback following additional end-user trials. The Company expects to release DroneGun MKIII during the current quarter.
- Additionally, the Company expects to release DroneGun Tactical, a version of the DroneGun product without the backpack, within days, also in response to end-user feedback.
- A video of the DroneSentinel/DroneSentry system can be viewed at www.droneshield.com/videos
- DroneShield remains the only company in the world offering both drone detection and handheld rifle-style tactical drone countermeasures, as its own product suite.

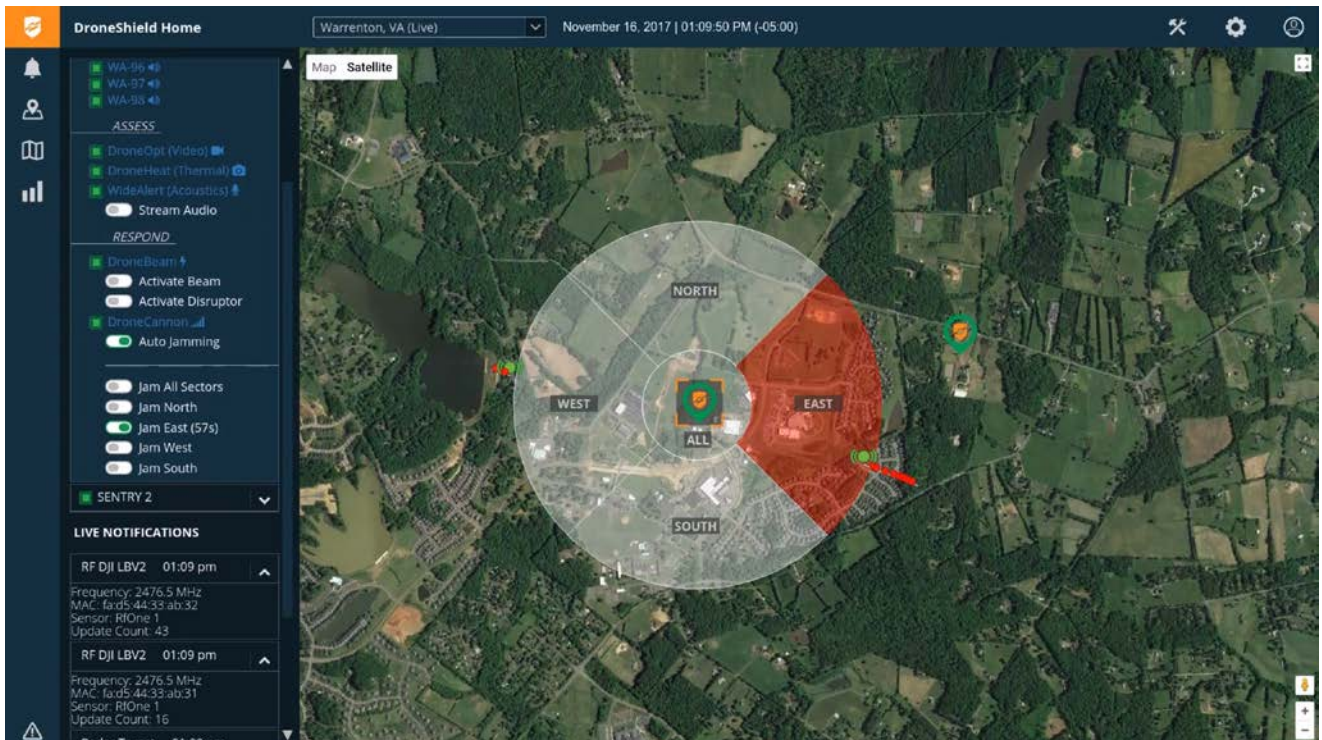


Image: DroneSentry GUI snapshot

Human Capital

- The Company has welcomed Mr. Albert Newell as its General Counsel. Mr. Newell is an experienced legal and international compliance leader in the U.S. defence and IT sectors. Mr. Newell previously worked for DXC Technology as the Global Compliance Lead where he oversaw the Anti-Bribery, Global Trade and HIPAA compliance programs. In that role, Mr. Newell coordinated regulatory correspondence, licenses, disclosures and acted as the ITAR and FCPA subject matter expert for the DXC legal department. Mr. Newell was also involved in M&A due diligence, oversaw training development, wrote compliance policies and managed the policy approval process for the company globally. Prior to his tenure at DXC, Mr. Newell spent six years at the prime defence contractor BAE Systems where he was a compliance officer specializing in export control and third party due diligence. Mr. Newell holds a BA from the University of Colorado, Colorado Springs; a Juris Doctor of Law degree from the Catholic University in Washington DC and is an active member of the Virginia State Bar.



Image: Albert Newell

- On 29 December 2017, the company welcomed Mr. Bradley Buswell to its Board of Directors. Mr. Buswell is based in Washington, DC, and brings to the Board extensive experience in successfully leading businesses and U.S. government agencies. From September 2013 to July 2015, Mr. Buswell was president of the North Americas division of Rapiscan Systems, Inc., a world leader in state of the art security screening products, services and solutions. Amongst other initiatives, Mr. Buswell led the launch of the Real Time Tomography product line, ensuring U.S. government certification of the technology for aviation screening and securing the first competitive contracts for installation in European airports. Before joining Rapiscan, Mr. Buswell served as President and CEO of Morpho Detection, Inc. (previously General Electric Homeland Protection prior to being acquired by Safran, a French aerospace and defense company) from July 2010 to July 2013. He joined Morpho Detection from his previous role at the United States Department of Homeland Security as Deputy Under

Secretary for Science and Technology where he led a 1,200 person staff in the development of technologies in support of DHS operating components including the Transportation Security Administration, Customs & Border Protection, the U.S. Secret Service and the Federal Emergency Management Agency, as well as state and local first responders. Following that role, he served as the acting Undersecretary during the first year of the Obama administration.



Image: Bradley Buswell

- At the same time, Dr. Samantha Ravich transitioned from Board of Directors to the Advisory Board of DroneShield.
- The Company welcomed Mr. Derek Davis as a new VP of Sales, focusing on US military. Mr. Davis' previous background includes senior sales roles at organisations such as BAE Systems and Cobham.
- Anand Sundaraj from Whittens & McKeough Pty Ltd stepped down as Company Secretary, with Alistair McKeough (partner at Whittens & McKeough Pty Ltd) was appointed Company Secretary, effective 28 November 2017. For the purposes of ASX Listing Rule 12.6, from 28 November 2017 Alistair McKeough is also the person responsible for communications between the Company and ASX. The Company also updated its registered address on same day to Level 29, 201 Elizabeth Street, Sydney NSW 2000 Australia.

Press Coverage

- The press continued its extensive coverage of DroneShield. Among the many press reports on DroneShield were the following:
 - Interview: DroneShield Chief bullish on UAV mitigation's future (*DroneLife*, 10 January)²
 - DroneShield DroneGun certified safe for radio frequency exposure (*Unmanned Airspace*, 9 January)³
 - DroneGun a countermeasure to drone terror attacks (*UAS Magazine*, 5 January)⁴
 - DroneShield secures safety approval for anti-drone gun (*The West Australian*, 29 December)⁵
 - DroneSentinel & DroneSentry could serve your anti-drone needs (*The Drive*, 11 December)⁶
 - Veja metodos para evitar que drones atrapalhem voos em aeroportos (*Globo.com*, 23 November)⁷
 - DroneShield video wows government officials (*DroneLife*, 23 November)⁸
 - DroneSentinel Demonstration (*UAS Vision*, 23 November)⁹
 - DroneSentinel/ DroneSentry anti-drone systems (*sUAS News*, 22 November)¹⁰
 - DroneShield enters lucrative South American security market (*The West Australian*, 20 November)¹¹
 - DroneShield to supply Paraguay with drone jammer (*Unmanned Airspace*, 20 November)¹²
 - Industry eyes opportunities in counter-drone market (*National Defense*, 20 November)¹³

² <https://dronelife.com/2018/01/08/interview-droneshield-chief-bullish-uav-mitigations-future/>

³ <http://www.unmannedairspace.info/counter-uas-systems-and-policies/droneshield-dronegun-certified-safe-radio-frequency-exposure/>

⁴ <http://www.uasmagazine.com/articles/1802/dronegun-a-countermeasure-to-drone-terror-attacks>

⁵ <https://thewest.com.au/business/public-companies/droneshield-secures-safety-approval-for-anti-drone-gun-ng-b88700621z>

⁶ <http://www.thedrive.com/aerial/16726/dronesentinel-dronesentry-could-serve-your-anti-drone-needs>

⁷ <http://g1.globo.com/fantastico/noticia/2017/11/veja-metodos-para-evitar-que-drones-atrapalhem-voos-em-aeroportos.html>

⁸ <https://dronelife.com/2017/11/21/droneshield-video-wows-government-officials/>

⁹ <https://www.uasvision.com/2017/11/22/dronesentinel-demonstration/>

¹⁰ <https://www.suasnews.com/2017/11/dronesentinel-dronesentry-anti-drone-systems/>

¹¹ <https://thewest.com.au/business/public-companies/droneshield-enters-lucrative-south-american-security-market-ng-b88664988z>

¹² <http://www.unmannedairspace.info/counter-uas-systems-and-policies/droneshield-supply-paraguay-drone-jammer/>

¹³ <http://www.nationaldefensemagazine.org/articles/2017/11/6/industry-eyes-opportunities-in-counter-drone-market>

- Defense update: DroneGun (*Defense Update*, 18 November)¹⁴
 - DroneShield set to supply DroneGun to Paraguayan government (*Tech Invest*, 17 November)¹⁵
 - DroneShield bags Paraguayan government tender for DroneGun product (*Small Caps*, 17 November)¹⁶
 - Australia politician pledges anti-drone police unit armed with DroneGuns (*DroneLife*, 16 November)¹⁷
 - DroneShield raises \$2.32m for anti-drone tech (*Business News*, 2 November)¹⁸
 - DroneShield dévoile un fusil anti-drone disposant d'une portee de deux kilometres (*Neozone*, 30 October)¹⁹
 - Stadiums become more intelligent with new technology (*asmag.com*, 23 October)²⁰
 - DroneShield: at the forefront of counterdrone industry (*DroneMajor*, 17 October)²¹
 - DroneShield set to fly in the anti-drone market (*West Australian*, 12 October)²²
 - The rise of drone crime and how cops stop it (*Egadget*, 11 October)²³
 - Spanish military and law enforcement evaluating DroneShield's new DroneGun MKII in October (*Azeri Defence*, 3 October)²⁴
- In Australia, Commsec Securities conducted an interview with Peter James, the Company's chairman, in early December 2017. The interview can be viewed at www.droneshield.com/videos



Image: Commsec Securities interview with DroneShield chairman Peter James

- 2GB radio in Sydney conducted a radio interview with Peter James, where he shared a further update on the company and the counterdrone market.²⁵

¹⁴ http://defense-update.com/20170301_dronegun.html

¹⁵ https://techinvest.online/droneshield-set-supply-dronegun-paraguyan-government/?utm_source=Facebook&utm_medium=TechInvest&utm_content=DroneShieldLtd&utm_campaign=Articles2017

¹⁶ <https://smallcaps.com.au/droneshield-paraguay-government-tender-dronegun/>

¹⁷ <https://dronelife.com/2017/11/15/australian-politician-pledges-anti-drone-police-unit-armed-droneguns/>

¹⁸ <https://www.businessnews.com.au/article/DroneShield-raises-232m-for-anti-drone-tech>

¹⁹ <https://www.neozone.org/drone/droneshield-devoile-un-fusil-anti-drone-disposant-dune-portee-de-deux-kilometres/>

²⁰ <https://www.asmaq.com/showpost/23865.aspx>

²¹ <http://dronemajor.net/editorials/droneshield-at-the-forefront-of-the-counter-drone-industry>

²² <https://thewest.com.au/business/public-companies/droneshield-set-to-fly-in-anti-drone-market-ng-b88627395z>

²³ <https://www.engadget.com/amp/2017/10/11/drone-crime-how-cops-stop-it/>

²⁴ <http://en.azeridefence.com/spanish-military-and-law-enforcement-evaluating-dronegun-mkii-in-october/>

²⁵ <https://www.2gb.com/podcast/aussie-business-fighting-drones/>

Finance

- DroneShield ended the quarter with approximately \$2.36m in cash.
- On 27 October 2017, DroneShield completed a successful placement in the amount of \$2.32m. Additionally, the company has received approximately \$230,000 in Australian Research & Development Tax Incentive for 2016. The application for the Research & Development Tax Incentive for 2017 is currently underway, with the grant expected to be received around mid 2018. Additionally, the Company is expecting to receive the Austrade Export Marketing Development Grant shortly as well.
- The Company has also applied, for several substantial governmental grants in Australia and the United States. The award of these grants is expected to be determined during 2018.
- On 6 November 2017, Patersons Securities released a research report on DroneShield. The report is available under the Broker Research section at www.droneshield.com/investors.

Environment

When the Company commenced, drone threats were a novelty, and the fact that new unmanned technologies presented a real danger had not yet become universally accepted. Today, the existence and the proliferation of drone-related threats is conventional wisdom. Governments and corporates around the world have recognized the issue and are allocating budgets to drone mitigation – DroneShield's core business.

In the recent months, the following incidents and developments have further focused the attention of the decision-makers on the issue.

- A swarm of 13 homemade, presumably ISIS, drones simultaneously attacked two Russian military installations in Syria - an air base and a naval installation.



Images: homemade drones that attacked the Russian Air Force base in Syria in early January, including apparent 3D printed explosive payloads

- In November 2017, the U.S. Department of Homeland Security issued a terror bulletin focusing on the threat of weaponized drones.
- In October 2017, footage uploaded to YouTube reportedly showed an armed ISIS drone destroying an arms depot in northern Syria.
- Earlier in 2017, the United States Federal Aviation Administration (the FAA) banned drone flights over 133 domestic U.S. military facilities. Nevertheless, unauthorized drone flyovers over domestic U.S. military installations continue to be reported.
- Turkish security forces seized Kurdish militants' bomb-laden drone.
- The FAA barred drone flights over seven major U.S. nuclear sites, including the Los Alamos National Laboratory in New Mexico. The new restrictions include the Hanford Site in Washington State, Idaho National Laboratory, Savannah River National Laboratory in South Carolina, Pantex Site in Texas and the Y-12 National Security Site and Oak Ridge National Laboratory in Tennessee.
- A high number of near misses whereby drones narrowly avoided colliding with aircraft continue to be reported globally, with experts warning of deadly consequences in a collision. Recently, these included:
 - A drone struck a passenger Boeing plane descending over theme park in Argentina.
 - A drone hit a commercial aircraft in Canada.
 - A drone and an airliner collided in Canada.
 - The Ben Gurion Airport in Israel halted traffic as a drone was spotted shortly after the United States Vice President Mike Pence disembarked from Air Force Two at the airport during a state visit.
 - A man in New Zealand was charged over the use of a drone which grounded eight helicopters involved in fighting an out-of-control fire.
 - A plane missed a drone by "three seconds" over Glasgow.
 - Multiple near misses between planes and drones at Edinburgh airport.
 - The Sao Paulo Congonhas airport was shut down for 2 hours due to a drone scare.
 - Close encounters between planes and drones were reported at an Alabama airport.
 - Drones were reported to have impeded California firefighting efforts.
 - A drone prompted a diversion of an Arkansas wildfire surveillance plane.
- A man was arrested for flying drones to drop leaflets over NFL games.
- Ongoing multiple reports of drones delivering contraband into prisons continue, around the world, including reports from Lithgow Correctional Centre (NSW), Arizona, Georgia, Northern California and South Carolina (U.S.) and British Columbia (Canada).
- The United States Deputy Attorney General Rod J. Rosenstein told the American Correctional Association's conference in Orlando in early January 2018, *"In the old days, cellphones and other contraband items entered our facilities through the doors, or the loading docks, In some cases, they were thrown over the fence. Today, we face another technological threat: drones that can fly contraband into jail and prison yards."*²⁶
- The U.S. border protection agents were reported to have spotted 13 drones suspected of carrying drugs across one section of the U.S.-Mexico border in just one four-day period in November 2017.

Please see <https://www.droneshield.com/press-coverage> and <https://twitter.com/DroneShield> for more information.

²⁶ https://www.washingtonpost.com/world/national-security/justice-dept-scrambles-to-jam-prison-cellphones-stop-drone-deliveries-to-inmates/2018/01/08/42492896-f4a0-11e7-b34a-b85626af34ef_story.html?utm_term=.9c50dc0820d2

Performance Shares

As at 31 December 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) ²⁷	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 ²⁸	15,000,000	0	0	15,000,000
Class B ²⁹	15,000,000	0	0	15,000,000
Class C ³⁰	15,000,000	0	0	15,000,000
Total	45,000,000	0	0	45,000,000

Cash Balance

As at 31 December 2017, DroneShield had a combined cash balance of \$2.36m as outlined in the accompanying Appendix 4C.

Further Information

Oleg Vornik
 CEO and Managing Director
 Email: oleg.vornik@droneshield.com
 Tel: +61 2 9995 7280

About DroneShield Limited

Based in Sydney, Australia and Virginia, USA, 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 and intelligence.

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²⁷ Performance Shares were issued to all pre-IPO shareholders at the time of the IPO.

²⁸ 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).

²⁹ 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).

³⁰ 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")

31 DECEMBER 2017

Consolidated statement of cash flows	Current quarter \$A	Full Year \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	23,325	340,367
1.2 Payments for		
(a) research and development	(199,811)	(653,662)
(b) product manufacturing and operating costs	(3,704)	(107,758)
(c) advertising and marketing	(140,666)	(417,839)
(d) leased assets	-	-
(e) staff costs	(478,337)	(2,566,159)
(f) administration and corporate costs	(486,005)	(1,519,294)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	6,982	46,252
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	237,449	237,449
1.8 Other (provide details if material)		(254)
1.9 Net cash from / (used in) operating activities	(1,040,767)	(4,640,898)

Consolidated statement of cash flows		Current quarter \$A	Full Year \$A
2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) property, plant and equipment ³¹	(91,787)	(862,790)	
(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	(91,787)	(862,790)	
3. Cash flows from financing activities			
3.1 Proceeds from issues of shares	2,321,994	3,600,527	
3.2 Proceeds from issue of convertible notes	-	-	
3.3 Proceeds from exercise of share options	-	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) ³²	(85,249)	(192,133)	
3.10 Net cash from / (used in) financing activities	2,236,745	4,374,413	

³¹ Primarily associated with DroneGun, DroneSentry and DroneSentinel development.

³² 3.9 cash flows of \$85,249 for the current quarter relate to costs associated with raising capital.

Consolidated statement of cash flows		Current quarter \$A	Full Year \$A
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	1,265,094	3,497,077
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,040,767)	(4,640,898)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(91,787)	(862,790)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,236,745	4,374,413
4.5	Effect of movement in exchange rates on cash held	(6,392)	(4,908)
4.6	Cash and cash equivalents at end of quarter	2,362,894	2,362,894

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	312,894	315,094
5.2	Call deposits	2,050,000	950,000
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)	2,362,894	1,265,094

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	152,499
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 of the Board.		

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	40,000
9.2	Product manufacturing and operating costs	160,000
9.3	Advertising and marketing	65,000
9.4	Leased assets	-
9.5	Staff costs	720,000
9.6	Administration and corporate costs	285,000
9.7	Other (provide details if material)	-
9.8	Total estimated cash outflows	1,270,000

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: 30 January 2018

Company secretary

Print name: Alistair McKeough

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.