

2 August 2018

Johanna O'Shea
Senior Adviser, Listings Compliance
Australian Securities Exchange
Level 5, 20 Bridge Street
Sydney NSW 2000

By Electronic Lodgement

Dear Ms O'Shea

DroneShield Limited (the "Company" or "DroneShield"): Appendix 4C Query.

Thank you for your letter of 31 July 2018 in relation to DroneShield's Appendix 4C quarterly report for the period ended 30 June 2018.

In relation to this matter generally DroneShield would like to highlight that the estimated cash outflows for the next quarter of \$1.68 million (section 9 of the Appendix 4C) are gross rather than net, and do not take into account any cash receipts. Further DroneShield would like to provide the following information relevant to your query.

Proceeds of the MOD Order. On 14 June 2018 and in the Quarterly Update accompanying the Appendix 4C, DroneShield announced that it had received a \$3,200,000 order (the "MOD Order") for 70 DroneGuns for use by a Middle Eastern Ministry of Defence (the "MOD"). DroneShield has now received a \$380,000 deposit from the customer towards this order and, subject to approval by a U.S. regulator overseeing defence exports, expects for the balance of the proceeds of the order to be received in tranches, over an approximately five month period following the grant of the approval. DroneShield is in regular contact with the relevant US regulator and has no reason to believe that the approval will not be granted. DroneShield notes that it received the relevant approval in each instance (on multiple occasions) in which it applied for it in relation to other transactions in the past. The relevant approval process is proceeding consistently with DroneShield's past regulatory approval experience.

Costs associated with the MOD Order. It should further be noted that the gross outflows of \$1.68 million for the next quarter are forecast on the basis that the MOD Order is approved by the regulator and therefore include a substantial amount towards the purchase of parts for the MOD Order. Consequently, if the MOD Order does not proceed, the Company expects the gross outflows to be meaningfully less than the \$1.68 million forecast in the Appendix 4C.

Proceeds of other sales. During the most recent quarter DroneShield received \$431,681 from customers, the highest customer sales it has had in any quarter since inception. This is a result of the maturing of the marketing and sales efforts undertaken by DroneShield over the past two years. DroneShield continues to pursue dozens of substantially developed sales opportunities, ranging from substantially smaller to substantially larger orders than the MOD Order each, and whilst the success of the Company's sales efforts is not guaranteed, any one (or more) of these sales opportunities could produce an order (orders) in the short-term, and DroneShield expects that some of these sales opportunities will result in substantial orders over the next several months.

Financing from EFIC (the Australian governmental Export Credit Agency). DroneShield has enjoyed substantial support from the Australian Government, particularly in light of the recent defence export policy implemented by the government. DroneShield is in advanced discussions about financing of its orders (including the MOD Order) by EFIC.

R&D Tax Incentive grant refund. DroneShield expects a grant of approximately \$400,000 in cash for the 2017 R&D Tax Incentive from the Australian Government, to be received in the current quarter.

Strategic industry participant options. As disclosed to the market previously, DroneShield has been engaging in discussions with a number of larger defence and security integrator company industry participants who are habitual industry strategic investors and acquirers. These discussions are ongoing, and whilst not guaranteed, may result in a transaction.

Shareholder and third party investor funding. In the past, DroneShield consistently enjoyed the support of its shareholders and the broader investor base, and in June and October 2017 and March 2018 raised \$3.57 mil and \$2.55 mil respectively – amounts of capital sufficient to enable the company to continue executing on its plans and achieve its milestones without diluting the shareholders substantially. Based on indications from investors, DroneShield expects to be able to raise additional funds, from its shareholders and/or third party investors if needed. The need for additional financing will depend on the timing of the items described above. Consequently, DroneShield assesses the need for additional financing in real time, and expects to be able to secure such financing on short notice, if it is in fact required. No efforts to undertake a financing are currently being pursued, as DroneShield does not believe that they are currently needed, based on the items set out above.

In relation to the specific queries you have raised and adopting the same paragraph numbering as contained in your letter we respond as follows:

1. Yes. However, for the reasons advised above, the Company expect its net cash operating cash flows position to continue to improve in the next quarter.
2. At this stage the Company does not have any immediate plans to raise further cash (other than in an order financing transaction with EFIC as outlined above).
3. Yes, as set out above.
4. The Company is in compliance with Listing Rule 3.1 and there is no information that should be given to ASX about its financial condition in accordance with that Rule that has not already been released to the market.
5. The responses to the questions above have been approved by the Company's board of directors.

Further Information

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31 July 2018

Mr Lee Tamplin
Assistant Company Secretary
DroneShield Limited
Whittens McKeough
PO Box A2621
Sydney South NSW 1235

By email: ltamplin@whittens.com.au

Dear Mr Tamplin

DroneShield Limited (“DroneShield”): Appendix 4C Query

I refer to DroneShield’s Appendix 4C quarterly report for the period ended 30 June 2018 lodged with ASX Market Announcements Platform and released on 27 July 2018 (the “Appendix 4C”).

ASX notes that DroneShield has reported:

- negative net operating cash flows for the quarter of \$1.34 million;
- cash at the end of the quarter of \$2.05 million; and
- estimated cash outflows for the next quarter of \$1.68 million.

It is possible to conclude, based on the information in the Appendix 4C, that if DroneShield were to continue to expend cash at the rate indicated by the Appendix 4C, DroneShield may not have sufficient cash to continue funding its operations. In view of that, ASX asks DroneShield to answer separately each of the following questions and provide the following confirmations in a format suitable for release to the market in accordance with Listing Rule 18.7A:

1. Does DroneShield expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
2. Has DroneShield taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
3. Does DroneShield expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
4. Please confirm that DroneShield is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition in accordance with that Rule that has not already been released to the market.
5. Please confirm that DroneShield’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of DroneShield with delegated authority from the board to respond to ASX on disclosure matters.

Please also provide any other information that DroneShield considers may be relevant to ASX forming an opinion on whether DroneShield is in compliance with Listing Rule 12.2 (a listed entity’s financial condition must, in ASX’s opinion, be adequate to warrant the continued quotation of its securities and its continued listing).

When and where to send your response

This request is made under, and in accordance with Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than 9:00 am AEST on Friday 3 August 2018. If we do not have your response by then, ASX will have no choice but to consider suspending trading in DroneShield's securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, DroneShield's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

In responding to this letter, you should have regard to DroneShield's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that DroneShield's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in DroneShield's securities under Listing Rule 17.1.

If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

If you have any queries or concerns about any of the above, please contact me immediately.

Kind regards

[Sent electronically without signature]

Johanna O'Shea

Adviser, Listings Compliance (Sydney)