



DRONESHIELD

Quarterly Report

For the Quarter Ended
31 March 2017



*Image: The Honourable Christopher Pyne,
Australian Minister for Defence Industry
with the DroneShield DroneGun*

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

Key Developments

DroneShield made significant progress in the quarter to March 31, 2017. The key developments included the following.

- As governments and civil infrastructure operators continued to become increasingly aware of drone threats, and commenced budget allocations to countering these threats, DroneShield achieved gross cash receipts of \$881k for the quarter. That is 7-fold higher than gross cash receipts in the previous quarter, and greater than the Company’s gross cash receipts (excluding IPO proceeds and pre-IPO fundraising) for the entire 2016.
- DroneShield ended the quarter with approximately \$3.1m in cash, only \$375k lower than the December 31, 2016 quarter.
- The Company launched WideAlert, a wide angle short-range (up to 200 m) acoustic drone detection product.



Image: DroneShield WideAlert

- In response to market requirements, DroneShield commenced work on DroneSentry, an integrated drone detection and countermeasure system focusing on detecting and defeating swarms of drones.



Image: DroneSentry deployment – artist's rendering

- Underscoring the reliability of DroneShield's detection products in complex environments, DroneShield will be deploying its detection system at Boston Marathon on 17 April 2017, for the third consecutive year.



Image: DroneShield deployment at Boston Marathon in 2016

- Following a detailed evaluation process, Swiss Police deployed DroneGun, the Company's tactical handheld drone jammer, at the World Economic Forum in Davos, a pre-eminent gathering of world economic, political and cultural leaders, which included the then US Secretary of State John Kerry and President Xi Jinping of China.



DroneGun, operated by the Swiss police agency Police cantonal Graubünden at Davos, Switzerland, during the January 2017 World Economic Forum

- The Defence Ministry of a Middle Eastern country acquired a DroneGun test unit and is understood to be conducting testing of the product.
- The Company made its first sale of WideAlert for use in a European NATO country. That sale was also the Company's first sale for use by a European security integrator.
- Shortly after the end of the quarter, the Company made its first sale of WideAlert to an Asian integrator.
- During the quarter and the first half of April, the Company attended, or its products were exhibited, at a range of industry trade shows and investment conferences. These attendances included:
 - a presentation by the Company's CEO and Managing Director Oleg Vornik at the 38th Annual Cowen Aerospace/Defense and Industrials Conference in New York,
 - the American Correctional Association conference in San Antonio, Texas,

- the Japan Self-Defence Force Exhibition, an invitation-only event conducted by Japan Ground Self-Defense Force,
- ISC West – the largest security conference in the US, and
- the International Defence and Exhibition Conference in Abu Dhabi, United Arab Emirates.



Image: Investigators check a drone, under tarpaulin, on the roof of the Japanese Prime Minister's office in 2015. The camera-equipped drone reportedly landed on the roof of the Japanese Prime Minister's office while containing radioactive material.

- Against the backdrop of nearly daily barrage of news about drone threats, it was announced that the United States allocated budgetary funds to drone security. DroneShield expects that such allocations will continue and that a number of governments around the world will follow the lead of the United States in allocating funds to drone defence in their budgets. Consequently, DroneShield substantially increased its governmental engagement globally during the quarter.



Image: DroneShield at the ISC West conference (5-7 April 2017)

- DroneShield conducted or scheduled to be conducted a number of demonstrations of its product to a range of governmental agencies in a number of countries. Among others, approximately ten Australian federal and state agencies attended a demonstration of the products in Canberra late in the quarter.

- DroneShield and its distributors commenced their participation in a number of government procurement processes, the outcome of which is expected to be determined in calendar year 2017.



Image: Recent DroneShield demonstration to Special Forces of a European country (April 2017)

- The press continued its extensive coverage of DroneShield. Among many press reports on DroneShield were the following:
 - DroneShield taking down drones safely using new technology (CBS, 8 April)¹
 - Terrorist drone threat: US unprepared for growing danger, experts say (Fox News, 6 April)²
 - Anti-drone tech comes of age at ISC West 2017 (SecurityInfoWatch, 6 April)³
 - Companies Developing Technology to Counter Weaponized Drones (Fox News, 5 April)⁴
 - Droneshield announces a sale of acoustic drone detection systems to European security integrator (Reuters, 22 March)⁵
 - 'Drone Gun' Protects World Leaders at Davos and Will Secure Sky Above Boston Marathon Against Errant Drones (Inc., 24 January)⁶

¹ <https://twitter.com/CharlesRandolp3/status/850736797621661696>

² <http://www.foxnews.com/tech/2017/04/06/terrorist-drone-threat-us-unprepared-for-growing-danger-experts-say.html>

³ <http://www.securityinfowatch.com/article/12321835/anti-drone-tech-comes-of-age-at-isc-west-2017>

⁴ <http://insider.foxnews.com/2017/04/05/drones-fight-terrorism-developed-us-companies-technology-national-security>

⁵ <http://www.reuters.com/article/brief-droneshield-announces-a-sale-of-ac-idUSFWN1GZ0S4>

⁶ <https://www.inc.com/will-yakowicz/drone-gun-to-protect-leaders-at-world-economic-forum-davos.html>



Image: DroneShield CEO and Managing Director Oleg Vornik interviewed on the national US TV channel FOX News, covering drone threats (April 2017)



Image: DroneShield VP of Sales Josh Desmond demonstrating use of a DroneGun on the US national channel CBS News (April 2017)

- The Company employed William H. Taggart as its Head of Business Development. Mr. Taggart was previously a Director at Colt's Manufacturing Company and Director (Military and Law Enforcement) at Trijicon, Inc. where he was responsible for all domestic military/government programs and all global commercial and military efforts. During his tenure at Trijicon, Mr. Taggart grew his division from one to 17 personnel while establishing offices in four foreign countries. During Mr. Taggart's tenure, Trijicon's annual sales increased from US\$17M to US\$130M.
- Prior to his commercial career, Mr. Taggart has served in the U.S. Marine Corps for 26 years across Infantry, Reconnaissance, Signal Intelligence and Defense Acquisition billets.



*Image: William Taggart,
DroneShield VP of Business Development*

- DroneShield's board expertise in the industry was underscored by the fact that, following the election of Donald J. Trump as the forty-fifth President of the United States of America, Dr. Samantha Ravich, DroneShield's director, participated in the Presidential transition as a member of the Presidential Transition Team.



*Image: Dr. Samantha Ravich,
DroneShield's Non-Executive Director*

- DroneShield was one of the winners of the Westpac Businesses of Tomorrow Award⁷, a high profile award with over 2,000 entrants this year.
- DroneShield's in-house and distributor salesforce continued to progress a large number of opportunities, with several orders in advanced stages.

Environment

The overall global demand for drone detection and mitigation products continued to increase during the quarter, against the backdrop of nearly daily barrage of news about drone threats. Dozens of high profile incidents and concerns took place during the course of the quarter and subsequent to its end. One can read about some of these at <https://www.droneshield.com/press-coverage> and <https://twitter.com/DroneShield>. Examples of recent relevant incidents and concerns, public statements by officials, and media coverage about relevant issues included the following.

- On 15 March 2017, the Australian Transport Safety Bureau released a report titled "Safety Of Remotely Piloted Aircraft Systems (drones)". The press reported that this report stated that between 2012 and 2016, there were about 180 incidents of drones being too close to aircraft and illustrated the recent growth in this problem by stating that more than 60 per cent of all reported encounters — 108 incidents — happened in 2016. The report was also reported to have stated that statistical models forecast a 75 per cent rise in the number of near encounters in 2017 and that most incidents happened in capital cities and almost all were above the allowed altitude for drones of 400ft (122m).

⁷ <https://businessoftomorrow.com.au/>



Image: Prince William's air ambulance was reported to have come within half a second of a catastrophic mid-air collision with a remote-controlled drone (March 2017)

- Similarly, the United States Federal Aviation Administration stated that between February 2016 and September 2016, pilots, air traffic control, law enforcement and members of the public reported possibly spotting 1,274 drones flying near air traffic control facilities — up from 874 during the same period in 2015. That's 400 more reported sightings, which is about a 45 percent increase from the amount of reported sightings in 2015.
- By way of example, in late March, Australian aviation authorities were reported to be investigating claims a drone came dangerously close to a Singapore Airlines Airbus 350 plane as it flew above the Swan River in Perth.
- Another complaint was made by a Virgin pilot, after a drone reportedly came within 100 metres of the pilot's aircraft as it approached Canberra.
- ISIS continued to utilise off-the shelf drones as time bombs in both Iraq and Syria, escalating these tactics in areas in which they had come under attack by the coalition forces. These attacks are reported to have prompted the U.S. military to step up its assessment of anti-drone technologies.
- On 13 February 2017, the high profile intelligence analytics firm Stratfor, in its report on drone terror threats, under the heading *Preparing for the Inevitable* stated that it was only a matter of time before an Islamic State supporter attempted a drone attack in the West.
- The shortcomings of the defense systems previously utilized by the Western militaries, against the growing drone threat, were illustrated by General David Perkins, the head of the United States Army Training and Doctrine Command, who told the audience at an Association of the United States Army event, that one of the US allies had successfully used a US\$3.4 million Patriot missile to destroy a quadcopter drone estimated to cost \$200.
- The Office of the United States Secretary of Defense was reported as having stated on March 22, 2017 that the upcoming budget proposal for fiscal year 2018 would include "significant" increases for counter-drone technology.



Image: The wreckage of a crashed drone is seen on a mountain on April 6, 2014 in Samcheok, South Korea. Three drones, believed to be North Korean, have been found in South Korea. North Korea is reportedly in possession of about 1,000 drones that can carry a deadly payload, according to a South Korean state-run think-tank.

Cash Balance

As at 31 March 2017, DroneShield had a combined cash balance of \$3,122,071 as outlined in the accompanying Appendix 4C.

Further Information

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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

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 MARCH 2017

Consolidated statement of cash flows	Current quarter \$A	Full Year (12 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	146,286	146,286
1.2 Payments for		
(a) research and development	(126,897)	(126,897)
(b) product manufacturing and operating costs	(32,805)	(32,805)
(c) advertising and marketing	(122,856)	(122,856)
(d) leased assets	-	-
(e) staff costs	(695,661)	(695,661)
(f) administration and corporate costs	(238,379)	(238,379)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	16,350	16,350
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)	(44,386)	(44,386)
1.9 Net cash from / (used in) operating activities	(1,088,348)	(1,088,348)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(6,361)	(6,361)
(b) businesses (see item 10)	-	-
(c) investments	-	-

+ See chapter 19 for defined terms
March 2017

Consolidated statement of cash flows	Current quarter \$A	Full Year (12 months) \$A
(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	(6,361)	(6,361)
3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	735,030	735,030
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)	(10,492)	(10,492)
3.10 Net cash from / (used in) financing activities	724,537	724,537
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	3,497,077	3,497,077
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,088,348)	(1,088,348)

Consolidated statement of cash flows		Current quarter \$A	Full Year (12 months) \$A
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,361)	(6,361)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	724,537	724,537
4.5	Effect of movement in exchange rates on cash held	(4,835)	(4,835)
4.6	Cash and cash equivalents at end of quarter	3,122,071	3,122,071

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	722,071	997,077
5.2	Call deposits	2,400,000	2,500,000
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)	3,122,071	3,497,077

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	317,925
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	

Salary, bonus and superannuation payments to Oleg Vornik (Managing Director and CEO) and salary and superannuation payments to former Managing Director and CEO, James Walker; payments to Azalea Limited (prior to resignation on 24 January 2017) in consideration for director fees of Winton Willesee, company secretary fees and utilisation of the registered office; and director fees for 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

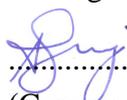
9.	Estimated cash outflows for next quarter	\$A
9.1	Research and development	23,850
9.2	Product manufacturing and operating costs	9,000
9.3	Advertising and marketing	40,000
9.4	Leased assets	-
9.5	Staff costs	803,000
9.6	Administration and corporate costs	215,000
9.7	Other (provide details if material)	-
9.8	Total estimated cash outflows	1,090,850

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:



(Company secretary)

Date: 12 April 2017

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.