



DRONESHIELD

Quarterly Report

For the Quarter Ended
30 September 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 30 September 2017 and its Appendix 4C quarterly cash flow report for the same period.

Key Developments

DroneShield made significant progress in the quarter to September 30, 2017. The key developments to the date of this report include the following.

Sales, Marketing, Deployments and Partnerships

- DroneShield's in-house and distributor salesforce continued to progress several dozen opportunities, including orders in advanced stages, including participating in a number of government procurement processes.
- The Company's short-term sales pipeline¹ was summarised in the Investor Presentation released to the ASX on 9 October 2017. It includes sales processes with multiple military and national security agencies in:
 - the United States,
 - Australia,
 - the United Kingdom,
 - South Korea,
 - France, and
 - Spain.
- The pipeline also includes a number of specific sales processes in a range of Middle Eastern, Asian, European, and South and Central American countries, ranging in size of opportunity from sub US\$500,000 to US\$45,000,000 each.
- Initial units of DroneGun MKII, the Company's second generation DroneGun product, were shipped to key prospective customers for evaluation, including US, Australian and several European NATO militaries.



Image: Major General Kathryn Toohey (Head of Land Capability of the Australian Army) with DroneGun MkII in September 2017

¹ 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.

- The development of this product - DroneGun MKII – was completed during the quarter in response to feedback by sophisticated end-users. The product offers a number of improvements over the first generation of DroneGun, including a substantially ruggedised design, lighter weight, and improved jamming algorithms.
- DroneShield remains the only company in the world offering both drone detection and handheld rifle-style tactical drone countermeasures, as its own product suite.

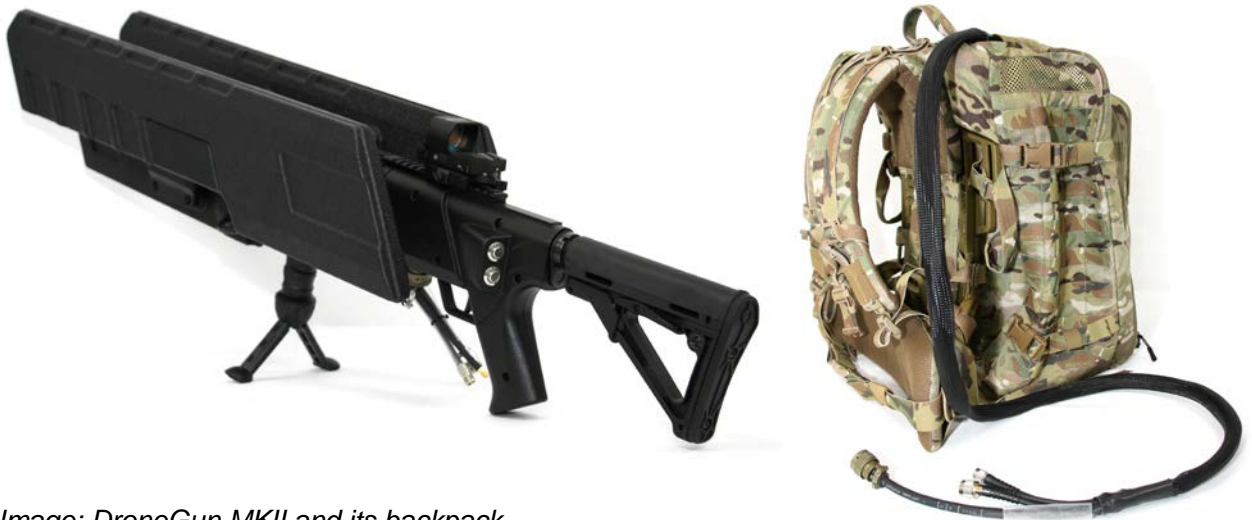


Image: DroneGun MKII and its backpack

- Additionally, during the quarter, the Company commenced marketing DroneSentinel and DroneSentry, comprehensive multi-sensor drone detection products.
- DroneSentinel combines radar, radio frequency, acoustic, thermal and optical detection methods for the detection of drones. DroneSentry combines these methods with a jamming countermeasure.
- These products replace the Company's stand-alone acoustic detection products, in response to sophisticated end-users' requirements for a multi-layered solution that provides the end-users with an integrated detect-and-defeat capability.



Image: DroneSentry (artist's impression)

- The Company was accepted to be part of Team Defence Australia, a joint effort with the Australian Department of Defence and Austrade.
- On 14 October 2017, DroneShield deployed its products for the protection of the IRONMAN World Championship in Kona, Hawaii, protecting 2,500 athletes on their 140.6-mile journey.



Image: RadarOne deployed at IRONMAN 2017 event in Kona in October 2017

- The Company welcomed Mr. Casey Betzold as a new VP of Sales, focusing on US, European, and APAC Sales, as well as David Powers who will be focusing on the US federal and military market. Mr. Betzold was previously a United States Air Force Acquisitions and Program Management Officer working with large prime defense contractors on programs including the Minuteman III Propulsion and GPS Metric Tracking programs and the Director of International Sales for Beretta. Mr. Powers is a former Federal Agent, Intelligence Officer and U.S. Special Operations Forces (SOF) leader, operator, combat training developer, and decorated combat veteran of Operations Desert Shield, Desert Storm and Provide Comfort, and the Enduring Freedom Campaign.



Image: Casey Betzold



Image: David Powers

Corporate

- On 11 October 2017, DroneShield announced an appointment of Mesirow Financial, a 600-person, US\$33 billion in assets under management, U.S. investment bank with a particular specialty in aerospace and defense, to advise the Company on a range of strategic options. Andrew Carolus, a Managing Director at Mesirow's Aerospace and Defense practice, said at the time "Our specialized aerospace and defense practice is very selective in accepting engagements, and we are proud to be assisting DroneShield and its board and management with evaluating the wide range of potential strategic options that are presenting themselves to DroneShield."
- Consistently with the practice of large defence "primes" seeking to partner with smaller companies as they start to get traction in the market, DroneShield has received interest from a number of industry players, including global defence companies. The Company has engaged in a number of negotiations with larger companies based in the United States, the UK, France, Israel and Sweden.
- DroneShield has also identified a number of assets of strategic value to it, each providing opportunities to realize customer, distribution channel and technology synergies.

Press Coverage

- The press continued its extensive coverage of DroneShield. Among the many press reports on DroneShield were the following:
 - DroneShield: at the forefront of counterdrone industry (*DroneMajor*, 17 October)²
 - DroneShield set to fly in the anti-drone market (*West Australian*, 12 October)³
 - The rise of drone crime and how cops stop it (*Engadget*, 11 October)⁴
 - Spanish military and law enforcement evaluating DroneShield's new DroneGun MKII in October (*Azeri Defence*, 3 October)⁵
 - US Army helicopter collision with a drone is a "catastrophe waiting to happen" (*Yahoo! Finance*, 27 September)⁶
 - What ASX's drone hunters think about Elon Musk and killer robots (*Stockhead*, 28 August)⁷

In Australia, Channel 7 News early this month reported drones delivering contraband as having become a major problem for the authorities and showcased DroneGun as the solution for the issue. [Click here](#) for the report:



Finance

- DroneShield ended the quarter with approximately \$1.27m in cash.
- Following the end of the quarter, on 27 October 2017, DroneShield completed a successful placement in the amount of \$2.32m.
- The Company applied for a multi-million dollar grant under Australia's Defence Innovation Hub, where the Centre of Defence Industry Capability had identified electronic warfare as one of its areas of focus.⁸

² <http://dronemajor.net/editorials/droneshield-at-the-forefront-of-the-counter-drone-industry>

³ <https://thewest.com.au/business/public-companies/droneshield-set-to-fly-in-anti-drone-market-ng-b88627395z>

⁴ <https://www.engadget.com/amp/2017/10/11/drone-crime-how-cops-stop-it/>

⁵ <http://en.azeridefence.com/spanish-military-and-law-enforcement-evaluating-dronegun-mkii-in-october/>

⁶ <https://finance.yahoo.com/news/us-army-helicopter-collision-drone-004000464.html>

⁷ <https://stockhead.com.au/tech/heres-what-asx-drone-hunters-think-about-elon-musk-and-killer-robots/>

⁸ There is no guarantee that the Company will secure this grant.

Environment

The pace of the industry is accelerating.

- On 26 September 2017, FBI Director Christopher Wray and Nicholas Rasmussen, Director of the U.S. National Counterterrorism Center, testified on drone threats before the U.S. Senate Committee on Homeland Security & Governmental Affairs in Washington, DC.



- [Click here](#) to watch a two minute video of that testimony. Two quotes, particularly striking in their frankness about the urgency of the problem, are below:
 - FBI Director Wray: Terrorist drones *“coming here imminently...”*
 - National Counterterrorism Center Director Rasmussen: *“Two years ago this wasn’t a problem, one year ago it was an emerging problem and now it’s a real problem.”*
- In late September, the press reported that the Pentagon had launched a US\$700 million drone-fighting program to combat ISIS’ use of drones.
- In late September, the press reported that drone swarm attacks posed a real risk to the U.S. President.
- This follows a barrage of ISIS drone attacks and videos released by ISIS and the press showing actual deployments of drones by ISIS. The problem is so serious that General Raymond Thomas, head of U.S. Special Operations Command, said that small ISIS drones were the “most daunting threat” his troops faced in Iraq and Syria.

- Below are screenshots of several videos on this threat. They can be accessed by clicking [here](#):
 - ISIS deploying drone to deploy grenades:



- ISIS propaganda video using a drone:



- Media report on witnessing an ISIS drone attack:



- ISIS members weaponising drones in class:



- DJI Phantom 3 drone used to drop bombs by ISIS:



- An ISIS drone strike on Abrams battle tank in Iraq:



- Significant concerns over drone terrorism potential have been expressed by officials including in relation to ISIS drone bombs at the Vatican, British football matches, and other high-profile venues.
- 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. These included:
 - A drone hitting a commercial aircraft in Canada, as it approached the Jean Lesage International Airport in Québec City.
 - A drone hitting a U.S. Army Black Hawk helicopter over Staten Island in New York.
 - A near collision between a drone and an Apache gunship helicopter above Barmouth beach in UK.
 - A RAF Puma helicopter in near miss with a drone over Maulden, UK.
 - A drone near miss with aircraft landing at Gatwick airport with 130 people onboard.
 - A drone flying around Halifax Airport in Canada, with police searching for the operator.
 - Drones impeding California wildfire firefighting efforts.
- The Australian Senator Barry O'Sullivan, a former air crash investigator, was reported to have said that a collision between an aircraft and a drone was a "*catastrophe waiting to happen*" and that "*we must get out in front of this so we can restore, as best we can, air safety*".
- Ongoing multiple reports of drones delivering contraband into prisons continue, around the world, including in Australia.
- Herald Sun has reported at least twenty near misses between drones and aircraft in Melbourne over last five years, referencing the Australian Transport Safety Bureau.

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

Performance Shares

As at 30 September 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) ⁹	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 ¹⁰	15,000,000	0	0	15,000,000
Class B ¹¹	15,000,000	0	0	15,000,000
Class C ¹²	15,000,000	0	0	15,000,000
Total	45,000,000	0	0	45,000,000

Cash Balance

As at 30 September 2017, DroneShield had a combined cash balance of \$1.27m as outlined in the accompanying Appendix 4C. In addition, on 27 October 2017, DroneShield completed a placement in the amount of \$2.32m. This amount is in addition to the cash balance set out in the accompanying Appendix 4C.

Further Information

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

About DroneShield Limited

Based in Sydney, 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.

ENDS

⁹ Performance Shares were issued to all pre-IPO shareholders at the time of the IPO.

¹⁰ 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).

¹¹ 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).

¹² Each Class C Performance Share will vest into one fully paid ordinary share upon the Company achieving, in relation to its technology, \$3,000,000 of cumulative earnings before interest and taxes (EBIT) or \$1,000,000 of annual EBIT in any given financial year, within 36 months of the date the Company is admitted to the Official List (Class C Milestone).

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

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

Name of entity

DRONESHIELD LIMITED

ABN

26 608 915 859

Quarter ended ("current quarter")

30 SEPTEMBER 2017

Consolidated statement of cash flows	Current quarter \$A	Year to date (9 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	55,332	317,042
1.2 Payments for		
(a) research and development	(95,457)	(453,851)
(b) product manufacturing and operating costs	(4,877)	(104,054)
(c) advertising and marketing	(38,935)	(277,173)
(d) leased assets	-	-
(e) staff costs	(629,866)	(2,087,822)
(f) administration and corporate costs	(349,724)	(1,033,289)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	6,645	39,270
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)	(245)	(254)
1.9 Net cash from / (used in) operating activities	(1,057,135)	(3,600,131)

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$A
2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) property, plant and equipment ¹³	(536,784)	(771,003)	
(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	(536,784)	(771,003)	
3. Cash flows from financing activities			
3.1 Proceeds from issues of shares	-	1,278,533	
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)	(3,761)	(106,884)	
3.10 Net cash from / (used in) financing activities	(3,761)	2,137,668	

¹³ Primarily associated with DroneGun, DroneSentry and DroneSentinel development.

+ See chapter 19 for defined terms

Consolidated statement of cash flows		Current quarter \$A	Year to date (9 months) \$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	2,848,382	3,497,077
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,056,577)	(3,600,131)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(522,664)	(756,884)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(3,761)	2,137,668
4.5	Effect of movement in exchange rates on cash held	(286)	(12,637)
4.6	Cash and cash equivalents at end of quarter	1,265,094¹⁴	1,265,094

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	315,094	1,198,382
5.2	Call deposits	950,000	1,650,000
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)	1,265,094	2,848,382

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	68,311
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.		

¹⁴ This balance excludes an additional \$2.32m placement that was completed by the Company following a successfully completed placement on 27 October 2017.

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		

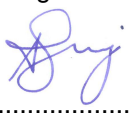
8.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1	Loan facilities	nil	nil
8.2	Credit standby arrangements	nil	nil
8.3	Other (please specify)	nil	nil
8.4	Include below a description 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	40,000
9.3	Advertising and marketing	82,700
9.4	Leased assets	-
9.5	Staff costs	628,200
9.6	Administration and corporate costs	221,700
9.7	Other (provide details if material)	-
9.8	Total estimated cash outflows	1,011,900

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: 31 October 2017
(Company secretary)

Print name: Anand Sundaraj

Notes

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