



DRONESHIELD

Quarterly Report

For the Quarter Ended
31 March 2018



*Image: Queensland Police deploying DroneGun
at the Gold Coast 2018 Commonwealth Games*

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 2018 and its Appendix 4C quarterly cash flow report for the same period.

Key Developments

DroneShield made significant progress in the quarter to 31 March 2018. The key developments to the date of this report include the following.

Sales, Marketing and Deployments

- DroneShield's in-house and distributor salesforce continued to progress a number of opportunities, including participating in a number of governmental procurement processes. Significant progress in particular is being made with NATO militaries, as evidenced by early March 2018 press reports of DroneGun Tactical being evaluated by the French military.



Image: His Excellency President of France Emmanuel Macron, French Minister of the Armed Forces Florence Parly, and the Chief of Staff of the Army Jean-Pierre Bosser review DroneGun Tactical at French Army Camp Mourmelon

- During the quarter, DroneShield's products were utilised for the protection of the XXIII Olympic Winter Games in PyeongChang, South Korea.



Image: DroneShield's RFOne overlooking an Olympic venue at 2018 Olympic Winter Games

- In late February 2018, the Queensland Police Service ("QPS") released a statement in relation to DroneShield providing multiple DroneGun units to QPS, for deployment during the XXI Commonwealth Games in Queensland in April 2018. The selection took place following an in-depth technical review by the Australian Defence Force, and the product was deployed at the Games successfully.



Image: Queensland Police Deploying DroneGun MKII

- In early February 2018, the Company received the US regulatory approval for a sale of a DroneGun MKII for use by the Paraguayan military.
- In mid February 2018, DroneGun MKII was assigned a NATO Stock Number (NSN) (5865-66-164-5197). An NSN is a 13-digit numeric code, identifying all the “standardised material items of supply” as they have been recognised by all NATO countries including United States Department of Defense, and allows for any each of the 29 NATO militaries to purchase DroneGun MKII on a “military catalogue” basis, significantly simplifying the procurement process. The NSN was assigned following a request for such assignment from the United States Department of Defense.
- During the quarter, the Company participated in the 2018 Urban 5th Generation Marine Exploration and Experimentation Exercise (“U5G 18”), organised 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 has received positive feedback from the event, with a significantly higher awareness for its products with the US military following the trial.
- During the quarter, the Company participated in the SOFWERX ThunderDrone RPEII event. SOFWERX is a Tampa, Florida based experimental lab created under a Partnership Intermediary Agreement between Doolittle Institute and the United States Special Operations Command (USSOCOM). ThunderDrone RPEII is the SOFWERX exercise focused on counterdrone systems and designed to expose new and emerging counterdrone technologies to the Strategic Capabilities Office (SCO) and USSOCOM. DroneShield was one of a limited number of counter-drone providers invited to participate in the event.
- During the quarter, the United States Defense Logistics Agency, the logistics combat support agency of the United States Department of Defense, certified DroneShield’s subsidiary DroneShield LLC under the United States / Canada Joint Certification Program DD2345 (militarily critical technical data agreement). With this certification, DroneShield LLC established eligibility to access unclassified export-controlled technical data of the U.S. Department of Defense (DOD) and Canada’s Department of National Defence (DND). DroneShield LLC’s certification under this program is part of its participation in the U.S. DOD and Canadian DND procurement processes.
- In early March 2018, the Company announced that ForcePro, one of the Company’s European distributors, placed an order for the Company’s DroneSentinel product, as well as two DroneGun units.
 - The DroneSentinel version ordered by the distributor is in a “light” radar/radio frequency detection sensor configuration. The radar used in this version of the product is RadarZero, the portable and miniaturised radar rolled out by the Company earlier in the month. The size and price point position RadarZero well for the civilian markets, while its functionality and specifications also make it appropriate for the military customers
 - The first order for the DroneSentinel product since its recent roll-out
 - The first order for the Company’s product incorporating RadarZero
 - The order came within weeks of the Company having launched RadarZero
 - The purchase of the DroneGuns is subject to approval by local authorities
 - The products purchased by ForcePro will be used to set up a DroneShield demonstration hub in the Netherlands, the home of the NATO Joint Force Headquarters, where there has been significant interest in counterdrone products across a number of domestic Dutch and international customers.
- DroneShield continues to participate in a number of defence and security conferences, including FIDAE in Santiago, Chile – the premier military conference in South America, as well as DSA (as part of Team Defence Australia) in Kuala Lumpur, Malaysia.



Image: Admiral Julio Leiva Molina, Commander in Chief of the Chilean Navy, reviewing DroneGun MKII



Image: Hon Christopher Pyne, Australian Minister for Defence Industry, reviewing DroneGun Tactical

Product Development

- Following the successful launch of the DroneGun MKII product in Q3 2017, the Company released DroneGun Tactical in January 2018. DroneGun Tactical represents the third generation in the DroneGun product line, with numerous in-field military and other customer feedback incorporated, including:
 - No backpack – the product is entirely self-contained in the rifle shape
 - Addition of 433Mhz and 915Mhz channels
 - Substantially revised control interface
 - Ruggedised



Image: DroneGun Tactical

- In early February 2018, DroneShield released RadarZero, a compact drone detection radar product. At roughly the size of a paperback book, the product can detect drones up to 850m away and sells for a fraction of the cost of the larger longer-range more conventional radars.



Image: RadarZero

Press Coverage

- DroneShield continued to appear frequently in the news. Among the many press reports on DroneShield were the following:
 - DroneGun a countermeasure to drone terror attacks (*UAS Magazine*, 3 January)¹
 - Interview: DroneShield Chief Bullish on UAV Mitigation's Future (*DroneLife*, 8 January)²

¹ <http://www.uasmagazine.com/articles/1802/dronegun-a-countermeasure-to-drone-terror-attacks>

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

- DroneShield Participates in 2018 U5G Marine Corps Exercise (*American Security Today*, 29 January)³
- DroneShield releases new drone defence product (*Small Caps*, 31 January)⁴
- DroneGun Tactical jams more punch into smaller package (*New Atlas*, 31, January)⁵
- This 'drone gun' can down rogue quadcopters with the pull of a trigger (*Digital Trends*, 31 January)⁶
- DroneGun Tactical is Your New and Improved Portable Drone Downer (*The Drive*, January 31)⁷
- New DroneGun has Blade Runner looks, can stop drones (*Cnet*, 5 February)⁸
- DroneShield's RadarZero is a Compact, Portable Drone Detector (*The Drive*, 7 February)⁹
- DroneShield has been recognised by NATO, and its shares are rallying (*Business Insider Australia*, 14 February)¹⁰
- Qld Police to deploy drone blockers at Commonwealth Games (*itNews*, 28 February)¹¹
- DroneShield New Electronic DroneGun (Boston Marathon & More) (*American Security Today*, 28 February)¹²
- Police at the Commonwealth Games will use anti-drone guns on rogue copters (*TechRadar*, 28 February)¹³
- Westpac Business of Tomorrow: creating growth on a global scale (*The Australian*, 6 March)¹⁴
- Australian drone technology ordered by Europe (*Defence Connect*, 8 March)¹⁵
- DroneShield to expand into Europe with Netherlands hub (*Proactive Investors USA and CANADA*, 23 March)¹⁶
- Say hello to my little friend! Queensland police will be able to shoot drones out of the sky from more than 2km away using technology designed to fight ISIS (*Daily Mail Australia*, 24 March)¹⁷
- Queensland cops to be armed with anti-drone guns during Commonwealth Games next month (*News.com.au*, 26 March)¹⁸
- Police bring down a drone as Games security is put to the test (*My GC*, 26 March)¹⁹
- Security measures increased ahead of Gold Coast Commonwealth Games (*9 News*, 27 March)²⁰
- ATTACK ON DRONES: High-tech gun can shoot down flying menace with radio waves (*Express*, 4 April)²¹
- DroneShield guns beef up Commonwealth Games security arsenal (*Financial Review*, 10 April)²²
- In Spain, Infodron conducted coverage of DroneShield's large scale demo near Madrid in March, as well as an interview with the CEO Oleg Vornik on site of the demo. While in Madrid, Mr. Vornik also presented at the Spanish Ministry of Interior conference on counterdrone solutions. The demo coverage and the interview can be viewed at www.droneshield.com/videos

³ <https://americansecuritytoday.com/droneshield-participates-2018-u5g-marine-corps-exercise-multi-video/>

⁴ <https://smallcaps.com.au/droneshield-new-drone-defence-product/>

⁵ <https://newatlas.com/dronegun-tactical-drone-countermeasure/53197/>

⁶ <https://www.digitaltrends.com/cool-tech/drone-gun-tactical-droneshield/>

⁷ <http://www.thedrive.com/aerial/18121/dronegun-tactical-is-your-new-and-improved-portable-drone-downer>

⁸ <https://www.cnet.com/news/dronegun-tactical-has-blade-runner-looks-and-can-take-drones-down/>

⁹ <http://www.thedrive.com/aerial/18316/droneshields-radarzero-is-a-compact-portable-drone-detector>

¹⁰ <https://www.businessinsider.com.au/droneshield-gets-recognised-by-nato-and-its-shares-jump-2018-2>

¹¹ <https://www.itnews.com.au/news/qld-police-to-deploy-drone-blockers-at-commonwealth-games-486028>

¹² <https://americansecuritytoday.com/droneshield-new-electronic-dronegun-boston-marathon-see-video/>

¹³ <https://www.techradar.com/news/police-at-the-commonwealth-games-will-use-anti-drone-guns-on-rogue-copters>

¹⁴ <https://www.theaustralian.com.au/business/westpac-businesses-of-tomorrow-creating-growth-on-a-global-scale/news-story/e2d4cd48415469158560ec3529c11a0b>

¹⁵ <https://www.defenceconnect.com.au/strike-air-combat/2008-australian-drone-technology-ordered-by-europe>

¹⁶ <http://www.proactiveinvestors.com/companies/stocktube/8937/droneshield-to-expand-into-europe-with-netherlands-hub-8937.html>

¹⁷ <http://www.dailymail.co.uk/news/article-5538623/Queensland-Police-able-shoot-drones-Commonwealth-Games.html>

¹⁸ <http://www.news.com.au/technology/gadgets/queensland-cops-to-be-armed-with-antidrone-guns-during-commonwealth-games-next-month/news-story/d4d0aff3563e9e9754c7848b55ec7d33>

¹⁹ <http://www.mygc.com.au/police-bring-down-a-drone-as-games-security-is-put-to-the-test/>

²⁰ <https://www.9news.com.au/national/2018/03/27/15/58/commonwealth-games-gold-coast-drone-gun-security-measures>

²¹ <https://www.express.co.uk/news/science/941287/tech-news-high-tech-gun-shoot-drones-commonwealth-games-australia>

²² <http://www.afr.com/technology/droneshield-guns-beef-up-commonwealth-games-security-arsenal-20180405-h0yda3?&utm>



Image: DroneShield CEO Oleg Vornik presenting at the Spanish Ministry of Interior counterdrone conference in March 2018



Image: Infodron coverage of the DroneShield Madrid demo in March 2018

- Channel 7 has released a feature on DroneShield in the Today Tonight show²³.

Channel 7: Today Tonight (February 2018)



Image: DroneShield on Chanel 7 Today Tonight show

²³ Available at www.droneshield.com/videos

- Proactive Investors released an interview with the CEO Oleg Vornik on the European expansion and setup of a hub in Netherlands²⁴.



Image: Proactive Investors DroneShield interview

Finance

- DroneShield ended the quarter with approximately \$3.78m in cash.
- On 23 March 2018, DroneShield completed a successful placement in the amount of \$2.55m. Additionally, the company has received approximately \$40k in Austrade Export Marketing Development Grant in 1Q18, with up to further \$95k to be received for 2017 subject to remaining EMDG funds. The application for the Research & Development Tax Incentive for 2017 is also currently underway, with the grant expected to be received around mid 2018. The Company has also received a small grant from Virginia Economic Development Partnership, reflecting its US office location.

Environment

The awareness of the drone threat by governments and corporates around the world continues to rapidly increase, with a corresponding focus on budgets to drone mitigation – DroneShield's core business.

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

- Saudi forces shoot down a drone near Saudi Royal Palace
- An ISIS plot to attack Russian World Cup with weaponised drones.
- Home-made drones bombing Russian airbase in Syria.

²⁴ Available at www.droneshield.com/videos



Image: two of the drones which bombed the Russian military camp in Syria, on display at the Ministry of Defence of Russian Federation

- Continued reports relating to prison contraband smuggling using drones:
 - Authorities in Florida looking into two incidents of drones delivering cellphone and tobacco into prisons
 - In March 2018, the Guardian reported that ten people in the UK had been arrested for using drones to deliver drugs into jails. The group from the West-Midlands (the district containing Wolverhampton and Birmingham) were charged by police with conspiracy to drop class A and B drugs over prison walls
 - Kern Valley State Prison (California) finding crashed drones on its premises
 - Santa Rosa Correctional Institution (Florida) reporting spike in inmate deaths as drones are used to smuggle in contraband
 - Georgia (US) prisons reported numerous drone contraband incursion incidents
 - Drone reported to drop drugs into a British Columbia prison.
- 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 reports included:
 - A Coast Guard crew in MH-65 Dolphin helicopter from Air Station Port Angeles (Seattle) coming within 50 feet of hitting a drone in Port Angeles
 - Drone nearly hitting a passenger jet at Gatwick airport
 - Durban pilots (South Africa) reporting a drone coming into their path
 - Charleston (South Carolina) helicopter crash blamed on a drone
 - Drone colliding with a helicopter on Kauai (Hawaii)
 - Drone “dive bombing” passenger jet above Las Vegas
 - F16 pilot reporting a drone on taxiway at the Naval Air Station Fort Worth Joint Reserve Base (US)
 - Vance Air Force Base (US) reporting a training flight coming within 50 feet of a drone
 - Ben Gurion airport (Israel) flights halted after drone entered the airport airspace
 - Drone coming close to a New Zealand Air Force helicopter
 - Near miss between an Air New Zealand flight and a drone
 - Small plane crash in New Zealand potentially caused by a drone.



Image: Drone divebombing an airplane in Las Vegas

- Drone suspected of starting a forest fire in Arizona.
- Drones delivering drugs across the US Mexican border.
- A man flying a drone over the Ed Sheeran concert in Brisbane (subsequently fined).

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

During the quarter, the Australian Government released its Defence Export strategy, with the aim to substantially assist Australian defence sector businesses. With DroneShield actively engaging with the Australian Department of Defence and other related agencies, DroneShield views this strategy as a substantial net positive for the company.

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) ²⁵	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 ²⁶	15,000,000	0	0	15,000,000
Class B ²⁷	15,000,000	0	0	15,000,000
Class C ²⁸	15,000,000	0	0	15,000,000
Total	45,000,000	0	0	45,000,000

²⁵ Performance Shares were issued to all pre-IPO shareholders at the time of the IPO.

²⁶ 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).

²⁷ 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).

²⁸ 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).

Cash Balance

As at 31 March 2018, DroneShield had a combined cash balance of \$3.78m as outlined in the accompanying Appendix 4C.

Further Information

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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

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 2018

Consolidated statement of cash flows	Current quarter \$A	Year to date \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	35,708	35,708
1.2 Payments for		
(a) research and development	(127,168)	(127,168)
(b) product manufacturing and operating costs	(4,153)	(4,153)
(c) advertising and marketing	(152,249)	(152,249)
(d) leased assets	-	-
(e) staff costs	(649,622)	(649,622)
(f) administration and corporate costs	(207,101)	(207,101)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	10,992	10,992
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	40,000	40,000
1.8 Other (provide details if material)	(369)	(369)
1.9 Net cash from / (used in) operating activities	(1,053,962)	(1,053,962)

Consolidated statement of cash flows		Current quarter \$A	Year to date \$A
2. Cash flows from investing activities			
2.1 Payments to acquire:			
(a) property, plant and equipment ²⁹	(247,700)	(247,700)	
(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	(247,700)	(247,700)	
3. Cash flows from financing activities			
3.1 Proceeds from issues of shares	2,554,901	2,544,901	
3.2 Proceeds from issue of convertible notes	-	-	
3.3 Proceeds from exercise of share options	243,705	243,705	
3.4 Transaction costs related to issues of shares, convertible notes or options	(76,718)	(76,718)	
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)	-	-	
3.10 Net cash from / (used in) financing activities	2,721,888	2,721,888	

²⁹ Primarily associated with DroneGun Tactical, DroneSentry and DroneSentinel development.

Consolidated statement of cash flows		Current quarter \$A	Year to date \$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	2,362,894	2,362,894
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,053,962)	(1,053,962)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(247,700)	(247,700)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,721,888	2,721,888
4.5	Effect of movement in exchange rates on cash held	(7,617)	(7,617)
4.6	Cash and cash equivalents at end of quarter	3,775,503	3,775,503

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	2,925,503	312,894
5.2	Call deposits	850,000	2,050,000
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)	3,775,503	2,362,894

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	59,580
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		

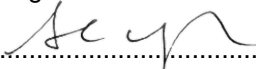
8.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1	Loan facilities	nil	nil
8.2	Credit standby arrangements	nil	nil
8.3	Other (please specify)	nil	nil
8.4	Include below a description 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	100,000
9.2	Product manufacturing and operating costs	100,000
9.3	Advertising and marketing	65,000
9.4	Leased assets	-
9.5	Staff costs	650,000
9.6	Administration and corporate costs	285,000
9.7	Other (provide details if material)	-
9.8	Total estimated cash outflows	1,200,000

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: 24 April 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.