



DRONESHIELD

Quarterly Report

For the date ending
30 June 2018



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

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

Key Developments

DroneShield made significant progress in the quarter to 30 June 2018. The key developments to the date of this report include the following.

Finance

- On 14 June 2018, DroneShield has announced a \$3.2m order (the “MOD Order”) for 70 DroneGuns™ for use by a Middle Eastern Ministry of Defence (the “MOD”)¹. This is the largest known order for tactical drone mitigation equipment of this kind globally, the first order for multiple DroneGun™ units, the largest order in the Company’s history, and the Company’s first multi-million dollar order. The Company expects for the majority of the cash inflows from the MOD Order to be received during the current, and the two subsequent quarters.
- As the Company’s marketing and product development efforts over the recent two years started maturing, the Company received cash inflows of \$431,681 from customers during the quarter, the Company’s best quarter in terms of cash generation since inception (this compares to \$35,708 received from customers in the prior quarter).

Sales, Marketing and Deployments

- The MOD order was important for several reasons:
 - The MOD has one of the largest defence budgets in the world. The Company considers this order as just a start of its relationship with the MOD and expects to receive substantial (and substantially larger) additional orders for this product and other products of the Company for the MOD and for other ministries and agencies in-country and elsewhere in the region.
 - The sale, the largest ever in the industry for this kind of equipment, establishes DroneShield as the leader in the industry, globally, and places DroneShield well ahead of its competitors in the global anti-drone industry “land grab”.
 - A large order by one of the most sophisticated users of security and defence equipment in the world validates the quality, effectiveness and competitiveness of DroneShield products.
 - DroneShield’s sales pipeline includes dozens of contracts that DroneShield is pursuing, in various stages of advancement, in dozens of countries. These range from a few tens of thousands of dollars to tens of millions of dollars each. Necessarily, not all, and there can be no assurance that any, of these sales opportunities will result in sales. However, DroneShield expects that this validation by a demanding user will accelerate the adoption of our products by a range of governmental and corporate users globally and accelerate the execution time-frame for DroneShield sales.
 - DroneShield has previously advised the market of its discussions with larger industry participants about a range of potential corporate transactions. These discussions are on-going. Larger defence “prime contractors” and security integrators are looking to ascertain which companies emerge as the winners in the anti-drone “arms race.” This order places DroneShield at the forefront of the industry and is likely to have a substantial positive effect on DroneShield’s corporate discussions with larger industry players.

¹ The Company’s ability to fulfil the order is subject to approval by a U.S. regulator overseeing defence exports. For clarity, only some of the Company’s potential orders require such approval since sales of some of the Company’s products to a number of countries allied with the United States do not require U.S. regulatory approval. The Company expects to receive such approval, if it is granted, in the next two months, using the established U.S. defence product sale approval process. There are, of course, no guarantees that the approval for this particular order will be granted.



Image: DroneGun Tactical™ interface

- On 23 April 2018, DroneShield announced that its products were utilised by the Australian Defence Force for the protection of the ASEAN-Australia Special Summit 2018 in Sydney.
 - The Association of Southeast Asian Nations (ASEAN) is the premier regional grouping in Southeast Asia.
 - The heads of the ten ASEAN states and the Australian delegation including Prime Minister Turnbull met in Sydney, the first time such a meeting was held in Australia.
 - Monitoring of drone activity at high profile events has become an important component of event management, similar to perimeter access control or participant credentialing. DroneShield's product DroneGun™ was used by the Australian Defence Force at the event, on behalf of the New South Wales Police for the protection of the participants from potential drone threats.

- On 14 May 2018, DroneShield announced that its European Hub had commenced operations. The detection capabilities showcased at the European Hub include multi sensor detection incorporating radar and radio frequency direction finder sensors (RadarZero™ and RfOne™), complemented by jamming capabilities provided by DroneGun Tactical™ and DroneShield's stationary jammer product DroneCannon™.



Images: European Hub during a recent customer demonstration

- DroneShield's in-house and distributor salesforce continued to progress a number of opportunities, including participating in a number of governmental procurement processes.



Video: Footage of DroneShield customer demonstration at a maximum security prison in Tallinn during 2Q18

- DroneShield continued to participate in a number of defence and security conferences, including Eurosatory in Paris in June (as part of Team Defence Australia).



Image: Australian Ambassador to France Mr Brendan Berne with DroneGun Tactical at Eurosatory exhibition in Paris



Images: DroneGun™ evaluated in South Korea

Product Development and Certifications

- On 21 May 2018, DroneShield announced the results of independent certification by 360°RF, a US based specialised radiofrequency testing laboratory, as compatible (that is, not interfering) with the most commonly utilized communications and navigation systems employed in the United States aviation/airport environment.
 - RfOne™ and RadarZero™, core modules within DroneShield’s DroneSentinel™ detection system, have been assessed as creating no increase in background EMI when operational, measured across a wide range of aviation frequency bands used by airports and aircraft.
 - DroneCannon™, the drone mitigation element of DroneShield’s DroneSentry™ system, has been determined to operate strictly within the advertised bands. In the non-GPS mode, these ranges are outside of aviation frequency bands.



Image: RadarZero™

- During the quarter, DroneShield continued to invest resources in further developing professional mass-scale production capabilities, to cater for orders such as the Middle Eastern MoD order for 70 DroneGun Tacticals™.

Press Coverage

- DroneShield continued to appear frequently in the news. Among the many press reports on DroneShield were the following:
 - Attack on Drones: High-tech gun can shoot down flying menace with radio waves (Express, 4 April)².
 - Winter Olympics bosses declare drone defence strategy a success (Commercial Drone Professional, 4 April)³.
 - Clear and present drone threat countered by fast-moving DroneShield (Small Caps, 5 April)⁴.
 - DroneShield guns beef up Commonwealth Games security arsenal (AFR, 10 April)⁵.
 - DroneShield technology protects ASEAN leaders (The West Australian, 24 April)⁶.
 - DroneShield takes flight with new European base of operations (SmallCaps, 14 May)⁷.
 - DroneShield gets tick of approval to protect US airports (The West Australian, 21 May)⁸.
 - Experts Say Drones Pose a National Security Threat – and We Aren’t Ready (TIME, 31 May)⁹.

² <https://www.express.co.uk/news/science/941287/tech-news-high-tech-gun-shoot-drones-commonwealth-games-australia>

³ <http://www.commercialdroneprofessional.com/winter-olympic-bosses-declare-drone-defence-strategy-success/>

⁴ <https://smallcaps.com.au/drone-threat-counterred-fast-moving-droneshield/>

⁵ <http://www.afr.com/technology/droneshield-guns-beef-up-commonwealth-games-security-arsenal-20180405-h0yda3?&utm>

⁶ <https://thewest.com.au/business/public-companies/droneshield-technology-protects-asean-leaders-ng-b88815313z>

⁷ <https://smallcaps.com.au/droneshield-flight-new-european-base-operations/>

⁸ <https://thewest.com.au/business/public-companies/droneshield-gets-tick-of-approval-to-protect-us-airports-ng-b88842781z>

⁹ <https://www.msn.com/en-us/news/us/experts-say-drones-pose-a-national-security-threat-e2-80-94-and-we-aren-e2-80-99t-ready/ar-AAy3tTZ>

- Defence Export Strategy a 'practical roadmap' for Aus industry: DroneShield (Defence Connect, 18 June)¹⁰.
- Eurosatory 2018: Middle Eastern MoD orders 70 DroneGuns (Jane's 360, 15 June)¹¹.

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DRONEFORSVARSELSESKAPI NORGE

Stor interesse for dronedeforsvar



**PÅ NORGE-
BESØK:**
DroneShield-
sjef Oleg Vornik
signerte tidligere en
kontrakt i Middelt-
en, og har vært
i samtaler med
en rekke norske
aktører denne
uken. 2018 06/30/18

– Det haster for flyplasser og fengsler

TEKNOLOGI: DroneShield-sjef Oleg Vornik møtte en rekke private og offentlige aktører på sitt besøk i Norge. – Kostnaden ved ikke å beskytte seg kan bli enorm, sier Vornik.

SVEN CHR. STENVÅG temer for deteksjon av droner og ef- over potensielle trusler. En drone



DRONESHIELD LTD.
• Selskap spesialisert på forsvarsubstyt med droner og dronedeforsvar.
• Etablert 2014, har kontorer i USA og Australia, og nylig på Australia.
• Succesfull i samarbeid med en rekke



Image: DroneShield CEO Oleg Vornik interviewed by Finansavisen, a major Norwegian financial newspaper



Video: DroneShield Chairman Peter James interviewed by CommSec TV

¹⁰ <https://www.defenceconnect.com.au/strike-air-combat/2441-defence-export-strategy-a-practical-roadmap-for-aus-industry-drone-shield>

¹¹ <http://www.janes.com/article/81089/eurosatory-2018-middle-eastern-mod-orders-70-droneguns>

Environment

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

Drones and the dangers they pose continued to make headlines this recent quarter. Decision makers from various nations and government agencies continued to increase their focus on drone regulation and countermeasures.

- Drones continue to threaten militaries and public infrastructure. They provide terrorist and criminal groups with a powerful and inexpensive vessel to mount explosives:
 - Pentagon’s 2019 budget has the largest ever allocation to counterdrone systems - US\$1.5 billion between over 90 different projects, ranging from modifications to existing missiles and anti-air systems to directed energy weapons to electronic warfare software. The largest share of the 2019 counterdrone budget is set to go to the Army’s Indirect Fire Protection family of systems.
 - ISIS released a propaganda video outlining their plan to attack the World Cup with weaponized drones.
 - Reports surfaced of sophisticated ISIS drone manufacturing operations in the Middle East.
 - Saudi Arabian Royal Palace erupted in gunfire as security forces spotted a drone hovering overhead.
 - Criminals used a swarm of drones to disrupt an ongoing hostage situation involving the FBI. Agents were forced to leave an observation post after numerous drones made low passes of their position.
 - A Seattle, USA man was charged after he crashed his drone into the Space Needle tower.
 - Palestinians flew bomb carrying drones into Israel to target IDF forces and civilians.
 - Activists in France flew a drone into a nuclear facility to highlight lack of security.
- Governments from around the world recognized drones as a threat to national security:
 - The Trump Administration sought authority to intercept drone communications to thwart domestic attacks.
 - Philippines scheduled a public hearing on drone regulation as a precautionary measure.
 - The UK Government placed an official ban on drones being flown over Windsor Castle during the Royal Wedding.
 - The U.S. Department of Homeland Security sought authority to track and destroy threatening drones.
- Stories relating to the smuggling of drugs, weapons and cell phones into prisons via drone drop were frequently in the media:
 - A prisoner in HM Prison Perth, Scotland was found with steroids believed to be smuggled in via drone. The prison has experienced two reported attempts to land drugs within prison walls strapped to drones.
 - Hundreds of mobile phones were found in Derbyshire prisons in the UK. It is believed that drones are responsible for smuggling them over prison walls.
- Close calls and collisions between drones and aircraft continue to rise. Airports, Police, Fire Fighters and Paramedics have all expressed concern:
 - A close call between a drone and a Royal New Zealand Air Force (RNZAF) helicopter occurred in Auckland.
 - UK Airport Board reveals a drone came very close to colliding with an Airbus 319 taking off from Heathrow Airport.
 - The International Air Transport Association backed a UN plan to develop a drone registry.
 - A drone came dangerously close to aircraft at Dallas Love Field USA forcing a helicopter to bank hard to avoid collision.

- A drone and helicopter collided in Switzerland. The helicopter suffered impact damage to the rotor blades.
- Birmingham Airport reported that a drone was hovering dangerously close to aircraft coming in to land.
- Oslo airport closed runways after detection of drones in airport airspace.
- Reports appeared of American firefighters struggling to operate firefighting helicopters and planes as curious drone hobbyists photographing wildfires grounded emergency aircraft.
- Border smuggling via drone is on the increase as smugglers realise how cheap and effective drones are at crossing conventional walls and fences:
 - Chinese smugglers used a sophisticated rope and pulley system with the help of drones to smuggling smart phones into Hong Kong from mainland China.
 - Smugglers use drones to spot vulnerabilities along the US-Mexico border. Drone sightings by Border Patrol are on the rise.
 - Drone piloting drug dealers in California receive prison sentences.
- The rise in drone sales and use increase public concern about privacy:
 - Northumbria Police in the UK revealed that they received 111 calls from concerned citizens related to drones in 2017.
 - Apple security have repeatedly ordered drone hobbyists to cease filming the new Apple campus from above.
 - Police in Northern Ireland experienced a 30% increase in drone related complaints in one year.
 - Numerous celebrities have complained about paparazzi using drones to observe them in their homes.
- Companies are concerned that drones may be used in espionage:
 - Credit Suisse found a drone on the roof of their HQ. There is concern that drones could be equipped with sophisticated listening or hacking technology.

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

Other

Performance Shares

As at 30 June 2018, 30,000,000 Performance Shares are on issue. 15,000,000 Class A Performance Shares expired during the period.

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) ¹²	Performance Shares converted to DRO shares during the period (B)	Performance Shares expired during the period (C)	Performance Shares on issue at end of period (A)-(B)-(C)
Class A ¹³	15,000,000	0	(15,000,000)	-
Class B ¹⁴	15,000,000	0	0	15,000,000
Class C ¹⁵	15,000,000	0	0	15,000,000
Total	45,000,000	0	0	30,000,000

Option issuance

During the quarter, the shareholders approved a grant of 23,249,384 zero exercise price options (“Zepos”) to the board and management of the Company. While the Zepos have been approved, they do not vest unless the Company achieves \$10 million revenue in any 12-month month period within 36 months of the date of the issue of the Zepos or is subject to a takeover during that period.

Cash Balance

As at 30 June 2018, DroneShield had a combined cash balance of \$2.05m as outlined in the accompanying Appendix 4C.

¹² Performance Shares were issued to all pre-IPO shareholders at the time of the IPO.

¹³ 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).

¹⁴ 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).

¹⁵ 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).

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	Quarter ended ("current quarter")
26 608 915 859	30 June 2018

Consolidated statement of cash flows	Current quarter \$A	Year to date \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	431,681	467,389
1.2 Payments for		
(a) research and development	(209,180)	(336,348)
(b) product manufacturing and operating costs	(65,224)	(69,377)
(c) advertising and marketing	(115,606)	(267,855)
(d) leased assets	-	-
(e) staff costs	(547,733)	(1,197,355)
(f) administration and corporate costs	(913,178)	(1,120,279)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	11,369	22,361
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	67,041	104,041
1.8 Other (provide details if material)	-	(369)
1.9 Net cash from / (used in) operating activities	(1,340,830)	(2,397,792)

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 ¹⁶	(341,355)	(589,055)
(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	(341,355)	(589,055)
3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	2,554,901
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	65,206	306,711
3.4 Transaction costs related to issues of shares, convertible notes or options	(80,124)	(156,842)
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	(14,918)	2,704,770

¹⁶ 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	3,775,503	2,362,894
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,340,830)	(2,397,792)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(341,355)	(589,055)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(14,918)	2,704,770
4.5 Effect of movement in exchange rates on cash held	(24,100)	(26,517)
4.6 Cash and cash equivalents at end of quarter	2,054,300	2,054,300

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	654,300	2,925,503
5.2 Call deposits	1,400,000	850,000
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)	2,054,300	3,775,503

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	101,375
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 to 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	25,000
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	

Payment to Mounthaven Consulting LLC, an affiliate of substantial shareholder Long Hill Capital LLC.

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	490,000
9.3 Advertising and marketing	80,000
9.4 Leased assets	-
9.5 Staff costs	580,000
9.6 Administration and corporate costs	425,000
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	1,675,000

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

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Sign here:
(Director/Company secretary)

Date: 27 July 2018

Print name: Dean Jagger

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.