



DRONESHIELD

Quarterly Report

For the Quarter Ended
30 September 2018



DRONESHIELD

Sites
Radar+RF

2018-10-12 01:07:47 AEDT



Dashboard

Installations

INSTALLATION 1

Coverage Display

☐ RF / Triangulation
☐ Radar

Zones

☐ Alert
☐ Auto Disrupt
☐ Suppress

Live Detection Events

Live Notifications

☒ Radars
☒ RF

Radars (4)

Radar 6m/s

Radar 6m/s

Radar 6m/s

Radar: #107

Range: 949.2m
Altitude: 98.82m
Speed: 6m/s
Classification: drone

Rf Association

Sensor: RfOne-East
Vendor: DJI
Protocol: LBv2
Classification: UAS
Frequency: 2401 MHz
MAC address:

Count: 143

Radar 6m/s



Image: DroneShield Complete™ GUI

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

Key Developments

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

Sales and Marketing

- In June 2018, DroneShield announced a \$3.2 million order for 70 DroneGuns^{TM1} for use by a Middle Eastern Ministry of Defence (the “MOD”) (the “MOD Order”). This was the largest known order for tactical drone mitigation equipment of this kind globally, the first order for multiple DroneGunTM units, the largest order in the Company’s history, and the Company’s first multi-million-dollar order. The MOD Order was the subject of a U.S. regulatory approval, and that approval was granted at the end of the quarter. In addition to the deposit received in relation to the MOD Order during the June 30 quarter, the Company received an additional progress payment of \$125,000 during the quarter. As advised to the market previously, the Company expects for the remaining cash inflows from the MOD Order to be received during the current quarter, and the subsequent quarter.



Image: DroneGun TacticalTM in its carry case

- The MOD Order illustrates the need for drone mitigation, which has now been recognized by a wide range of governmental and corporate users; as well as the fact that governmental budgets are now starting to include funds for drone mitigation. To that end, during the quarter, through its network of approximately 60 distributors in approximately 50 countries, DroneShield continued to pursue dozens of contracts ranging in size from tens of thousands of dollars to tens of millions of dollars

¹ DroneShield’s products DroneGun Tactical, DroneSentry and DroneCannon have not been authorized as required by the United States Federal Communications Commission (“FCC”). These devices are not, and may not be, offered for sale or lease, or sold or leased, in the United States, other than to the United States government, its agencies, and its properly delegated representatives, until such authorization is obtained. The use of such devices in the United States by other persons or entities, including, in certain circumstances, state or local government agencies, is prohibited by federal law. Laws limiting the availability of such devices to certain types of users may apply in other jurisdictions, and any sales will be conducted only in compliance with the applicable laws.

each.² In the recent weeks, several of the smaller sales opportunities matured into orders, with the Company announcing:

- an order for multiple units of DroneGun Tactical™ for use by a major Asian government agency,
- an order for DroneSentry™ and DroneGun Tactical™ units for use by Central American government, and
- an order for DroneGuns™ for use by a Western governmental agency.

- The table below demonstrates the lifecycle of the Company's products, from launch to market share.

Product	Launch	Product Release	First Demo	First Sale	First Large Sale	Substantial Market Share
 DroneGun™	Nov 2016	Dec 2016	Jan 2017	Nov 2017	\$3.2m - Jun 2018	Being Secured. US\$1.6bn market by 2023**
 DroneSentry™	Jul 2017	Sep 2017	Nov 2017	Mar 2018	Multiple Sales Being Advanced*	
 DroneSentry™	Jul 2017	Oct 2017	Nov 2017	Sep 2018	Multiple Sales Being Advanced*	

- On 19 - 21 September, DroneShield, by invitation from the Danish Special Operations Command, participated in the Night Hawk 2018 exercise held at the Aalborg Airbase in Denmark. Night Hawk 2018 is a major NATO annual military training exercise, with approximately 1,800 personnel from 10 NATO countries taking part. DroneShield deployed its DroneSentry™ integrated detect and defeat counterdrone system at the event, and was the only company invited to deploy such system at the exercise.
- During or subsequent to the quarter, DroneShield joined the Information Warfare Research Project Consortium and the Border Security Technology Consortium. The two consortia provide unique access to the relevant United States agencies in regard to their counterdrone requirements as they emerge, as well as an expedited procurement process.
- On 20 August 2018, DroneShield announced that its products had been approved by the U.S. government for placement on the GSA Schedule.
 - The GSA (General Services Administration) is an agency of the United States government that supplies products for U.S. government offices and operates the Federal Acquisition Service (the FAS). As part of this effort, it maintains the GSA Schedule, which U.S. government agencies can use to buy goods and services.
 - The GSA Schedule is a list of products pre-approved for purchase by U.S. government agencies (and includes pre-negotiated prices and purchase terms of these products).
 - Procurement managers from various U.S. government agencies can seamlessly make purchases of the products that are on the GSA Schedule, knowing that the terms of such purchases have been preset between the vendor and the GSA. The process is further streamlined through GSA Advantage, an online government purchasing service run by the GSA in order to provide a streamlined and efficient purchasing portal for U.S. governmental agency procurement.

² Necessarily, not all (and there can be no assurance that any) of the Company's sales opportunities will result in sales.

* See footnote 2 above.

** <https://www.marketsandmarkets.com/PressReleases/anti-drone.asp>

- The official description of GSA Advantage refers to it as “the Federal Government’s premier online shopping superstore.”
- On 25 July 2018, the Company announced that DroneGun Tactical™ had been certified as compliant for human exposure, in connection with requests by potential governmental end-users, in relation to their procurement processes.
 - OneTech, a specialist SAR (Specific Absorption Rate) laboratory for global certifications, has certified DroneGun Tactical™ as compliant with the ARPANSA EN 50566 and EN 50663 (Australian and New Zealand Communications and Media Authority requirements for human exposure to radio frequencies) within the specific frequency bands of operation which cross references to the international ICNIRP standard.
 - The certification was obtained in response to the DroneGun Tactical™ product advancing through procurement processes with a number of major defence and other government agencies internationally, for which this was a requirement requested by several agencies.
 - The certification follows DroneGun MKII™ safety for human exposure certification in December 2017, and DroneSentry™ airport compliance certification in May 2018.
- On 23 July 2017, DroneShield announced partnership with Intelligent Security Integration Aust. (ISI) in relation to its Rapid Scout® HQ product, a vehicle with integrated counterdrone detect and defeat solution.
 - A unique combination of DroneShield's counterdrone system with ISI's on-vehicle and electro-optics surveillance system.
 - The companies jointly exhibited Rapid Scout® HQ with counterdrone capability at the Land Forces 2018 exhibition in Adelaide in September 2018.



Image: DroneSentry™ on a Rapid Scout® van configuration in partnership with ISI at Land Forces 2018 in Adelaide

- DroneShield continued to participate in a number of defence and security conferences, including:
 - Land Forces 2018 in Adelaide in September,
 - Modern Day Marine 2018 in Quantico, Virginia, USA in September, and
 - Association of the United States Army (AUSA) Annual Meeting & Exposition in Washington, DC in October.



Image: Australian Ambassador to USA Mr Joe Hockey with DroneGun Tactical at AUSA exhibition in Washington DC

Press Coverage

- DroneShield continued to appear frequently in the news. Among the many press reports on DroneShield were the following:
 - DroneShield has been awarded an additional US patent³
 - DroneShield's DroneGun Tactical has been certified as compliant for human exposure⁴
 - DroneShield Goes Mobile with Counter-Drone Partnership⁵
 - Drone Countermeasures added to GSA schedule⁶
 - Dr Samantha Ravich has been handpicked by President Trump to be the Vice Chairwoman of the President's Intelligence Advisory Board⁷

³ <https://techinvest.online/droneshield-awarded-additional-us-patent/>

⁴ <https://www.uasvision.com/2018/07/27/dronegun-tactical-certified-for-human-exposure/>

⁵ <https://dronelife.com/2018/07/23/droneshield-goes-mobile-with-counter-drone-partnership/>

⁶ <https://washingtontechnology.com/articles/2018/08/22/gsa-drone-countermeasure.aspx>

⁷ <https://stockhead.com.au/tech/donald-trump-just-poached-droneshields-advisory-board-member/>

- DroneShield has become a member of the Information Warfare Research Project⁸
- Jobs for NSW covers DroneShield's recent awards received at Land Forces 2018⁹
- DroneShield Tactical picks up multiple awards at Land Forces 2018¹⁰
- DroneGun Tactical picks up a myriad of awards in the innovation space¹¹
- DroneShield invited by NATO to participate in Night Hawk 2018¹²
- DroneShield receives regulator approval for \$3,200,000 sale of 70 DroneGuns¹³

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:
 - Venezuelan President Nicolas Maduro was attacked by weaponised drones during a live televised speech in Caracas
 - A drone crashed into a nuclear plant in France highlighting the lack of security
 - Armed drones attacked a Russian airbase
 - NFL supported U.S. Senate bill to authorise the tracking, seizure and destruction of drones if they are deemed a threat
 - Dubai and UAE airports were the target of drone attacks
 - Yemen rebels reportedly attacked Abu Dhabi airport with a drone



Image: President of Venezuela being attacked by weaponised drones

⁸ https://www.finnewsnetwork.com.au/archives/finance_news_network190519.html

⁹ <https://www.jobsforNSW.com.au/whats-happening/news/nsw-counter-drone-technology-awarded>

¹⁰ <http://www.manmonthly.com.au/news/droneshield-wins-industry-innovation-awards/>

¹¹ <https://www.defenceconnect.com.au/strike-air-combat/2860-nsw-counter-drone-company-recognised-for-innovation>

¹² <https://stockhead.com.au/tech/nato-invites-drone-killer-droneshield-to-night-hawk-training-exercise/>

¹³ <https://smallcaps.com.au/droneshield-approval-largest-tactical-drone-mitigation-deal-history/>

- Governments from around the world continued their recognition of drones as a threat to national security:
 - Christopher Wray, the Director of the FBI stated the following in written testimony to the U.S. Senate Homeland Security and Governmental Affairs Committee: "The FBI assesses that, given their retail availability, lack of verified identification requirement to procure, general ease of use, and prior use overseas, UAS [drones] will be used to facilitate an attack in the United States against a vulnerable target, such as a mass gathering."



Image: U.S. Secretary of Defense General Mattis speaking about the dangers of malicious drones

- Stories relating to the smuggling of drugs, weapons and cell phones into prisons via drone drop were frequently in the media:
 - Drones may have been used in a prison break in France
 - A UK prison security netting collapsed and drug smugglers took advantage
 - Drug smugglers along the US Mexico border are increasingly using drones to smuggle narcotics into the United States
 - Tobacco smuggling drone was found stuck in a tree along the Ukraine-Romanian border.
 - It is believed that drones were partially responsible for an increase in drugs within US prisons
 - Drone flights over Californian prisons are now outlawed
- Close calls and collisions between drones and aircraft continue to rise. Airports, Police, Fire Fighters and Paramedics have all expressed concern:
 - Passenger jet carrying 240 people nearly hit a drone at 15,000ft in the UK airspace
 - A drone was used irresponsibly by journalist during the rescue of young Thai football team from cave
 - Swiss Federal Office of Civil Aviation claimed there were 85 reports of near-misses between drones and conventional aircraft

- Californian fire officials reminded the public that drones are a danger to firefighters doing their job
- Unauthorised drones interfered with firefighting efforts in British Columbia, Canada
- New restrictions came into force in the UK regarding flight altitude and airport boundaries
- Jersey Airport experienced 20 incidents of irresponsible drone use in the past three years
- There was a near miss between a drone and helicopter in Hollywood, Florida
- India banned flying drones within 5km of six airports
- Police seized a drone that disrupted a rescue helicopter responding to a road fatality in Michigan
- There was a close call between a passenger plane and drone at Doncaster airport
- FAA restricted drone use in the wake of Hurricane Florence

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

Other

Performance Shares

As at 30 September 2018, 30,000,000 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) ¹⁴	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 B ¹⁵	15,000,000	0	0	15,000,000
Class C ¹⁶	15,000,000	0	0	15,000,000
Total	30,000,000	0	0	30,000,000

Cash Balance

As at 30 September 2018, DroneShield had a combined cash balance of \$855,000 as outlined in the accompanying Appendix 4C.

On 17 October 2018, DroneShield launched a \$750,000 Share Purchase Plan ("SPP") with Patersons Securities Limited acting as the Lead Manager. An optional top-up placement may be undertaken following the completion of the SPP, on the same terms.

Following the end of the quarter, the Company announced that it secured a \$1,885,000 non-convertible credit facility. No funds have been drawn down under the facility.

¹⁴ Performance Shares were issued to all pre-IPO shareholders at the time of the IPO.

¹⁵ 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).

¹⁶ 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

26 608 915 859

Quarter ended ("current quarter")

30 September 2018

Consolidated statement of cash flows	Current quarter \$A	Year to date \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	295,525	762,914
1.2 Payments for		
(a) research and development	(213,580)	(549,928)
(b) product manufacturing and operating costs	(341,393)	(410,770)
(c) advertising and marketing	(3,270)	(271,125)
(d) leased assets	-	-
(e) staff costs	(549,623)	(1,746,978)
(f) administration and corporate costs	(585,250)	(1,705,529)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5,587	27,948
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	401,826	505,867
1.8 Other (provide details if material)	53,059	52,690
1.9 Net cash from / (used in) operating activities	(937,119)	(3,334,911)

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 ¹⁷	(249,550)	(838,605)
	(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	(249,550)	(838,605)
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	-	306,711
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(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	-	2,704,770

¹⁷ 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	2,054,300	2,362,894
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(937,119)	(3,334,911)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(249,550)	(838,605)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(0)	2,704,770
4.5	Effect of movement in exchange rates on cash held	(12,203)	(38,720)
4.6	Cash and cash equivalents at end of quarter	855,428¹⁸	855,428¹⁸

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	622,393	654,300
5.2	Call deposits	233,035	1,400,000
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)	855,428	2,054,300

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

**Current quarter
\$A**

104,713

-

- 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.

¹⁸ The cash balance shown excludes any proceeds from the Share Purchase Plan which commenced 17 October 2018. Additionally, following the end of the quarter, the Company announced that it secured a \$1,885,000 non-convertible credit facility. The funds under the facility are available to the Company.

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

75,000

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

Add notes as necessary for an understanding of the position

**Total facility amount
at quarter end
\$A**

**Amount drawn at
quarter end
\$A**

8.1 Loan facilities

1,885,000

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.

Following the end of the quarter, on 31 October 2018, the Company announced that it secured a \$1,885,000 non-convertible credit facility. Please refer to the ASX announcement of that date for additional details.

9. Estimated cash outflows for next quarter

\$A

9.1 Research and development

80,000

9.2 Product manufacturing and operating costs

350,000

9.3 Advertising and marketing

75,000

9.4 Leased assets

-

9.5 Staff costs

730,000

9.6 Administration and corporate costs

335,000

9.7 Other (provide details if material)

-

9.8 Total estimated cash outflows

1,570,000

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

-

-

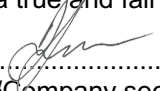
10.5 Nature of business

-

-

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: 31 October 2018

(~~Director~~ Company secretary)

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.