

Appendix 4D **For the half-year ended 30 June 2018**

DroneShield Limited
ABN 26 608 915 859

1. Reporting period

The financial information contained in the attached consolidated financial report is for the half-year ended 30 June 2018. The previous corresponding period was the half-year ended 30 June 2017.

Results for announcement to the market				
	Up/ Down	% Movement		2018 \$
Revenue from continuing activities	Up	5%	to	236,758
Loss from continuing activities after tax attributable to members	Up	21%	to	(3,565,389)
Net loss attributable to members	Up	21%	to	(3,565,389)
Dividends: No dividends are being proposed or have been paid	Nil	Nil		Nil

Additional information:

2. Commentary related to the above results

Refer to Directors Report in the attached half-year report.

3. Net Tangible Assets/(Liabilities) per share:

30 June 2018: \$0.01; 31 December 2017: \$0.02.

4. There was no change in control during the half-year ended 30 June 2018

5. There were no payments of dividends during the half-year

6. There is no dividend reinvestment plan in operation

7. There are no associates or joint venture entities

8. This report is based on the consolidated financial report which has been reviewed by HLB Mann Judd Assurance (NSW) Pty Ltd.

The information contained within this report is to be read in conjunction with DroneShield's 2017 Annual Report and any announcements to the market during the half-year period ending 30 June 2018. Further information regarding the company and its business activities can be obtained by visiting the company's website at www.droneshield.com



DRONESHIELD

Half Year Report

For the Half Year Ended
30 June 2018



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

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

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Corporate Information

Directors & Management

Peter James Independent Non-Executive Chairman
Oleg Vornik CEO and Managing Director
Robert Clisdell Non-Executive Director
Bradley Buswell Independent Non-Executive Director

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Stock Exchange Listing

DroneShield Limited (ASX code DRO) shares are quoted on the Australian Securities Exchange.

Directors' Report

Your Directors present their report for DroneShield Limited (the “Company”) and its controlled entities (collectively “the Group”) for the half-year ended 30 June 2018.

Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Name	Position
Peter James	Independent Non-Executive Chairman
Robert Clisdell	Non-Executive Director
Oleg Vornik	CEO and Managing Director
Bradley Buswell	Independent Non-Executive Director

Business Overview

Based in Sydney, Australia and Virginia, USA, DroneShield is a worldwide leader in drone security technology. The Company has developed and continues to develop security solutions that protect people, organisations and critical infrastructure from intrusion from commercial/consumer grade drones.

The Company's unique products use proprietary software and hardware to detect drones in a combination of radar, radio frequency (RF), acoustic, optical camera and thermal camera based systems and instantly alert users in real-time through multiple channels ensuring any potential threats can be addressed, and interdict drones using RF jamming.

The Company's product lines currently include the following:

- DroneGun Tactical™ - a portable tactical rifle drone jammer;
- DroneSentinel™ - a multi-sensor (radar, RF, acoustics and optical and thermal camera) drone detection system; and
- DroneSentry™ - an integrated detect-and-defeat system, combining the DroneSentinel™ module with an RF jammer.

Review of Operations and Financial Results

During the prior periods, as well as this period to 30 June 2018, in response to end-users' requirements, the Company focused on:

- refining its multiple-method detection products, and
- marketing them to end-users across military, law enforcement, critical infrastructure, airports and events and other segments in its 50 country global distribution network.

These marketing efforts commenced bearing material results during the period, with the Company receiving its first multi-million dollar order (a \$3.2 million order for 70 DroneGuns™, for use by a Middle Eastern Ministry of Defence)¹. During the period, a deposit in connection with the order was received, and the balance of the purchase price is expected to be received over an approximately five month period following the regulatory approval of the order.

The net loss after tax for the half-year was \$3,565,389 (2017: loss of \$2,938,138). The Company achieved cash inflows from customers of \$467,389 for the half-year, an increase of 79% relative to the prior half-year.

The Company recognised revenue of \$236,758 for the half-year, an increase of 5% relative to the prior half year. The cash receipts for orders received during the period, but not yet fulfilled are recognised under Other Liabilities on the Balance Sheet as revenue received in advance.

Key achievements for the half-year to 30 June 2018 included:

- A \$3.2 million 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.
- Early in the period, DroneShield obtained U.S. regulatory approval for an order placed for use by the Paraguayan Ministry of National Defense at the end of the prior period.
- DroneShield's high-profile deployments during the period included protecting the Olympic Games in South Korea in February 2018, the Commonwealth Games in Australia in April 2018, and ASEAN Summit in Sydney in April 2018.
- DroneShield's European hub in Holland commenced operations, with several high profile demonstrations. A number of demonstrations and trial deployments have been performed or are scheduled to be performed in near term, to potential customers at a number of venues. This included militaries of a number of countries globally, including a scheduled demonstration for the United States Marine Corps and United States Navy at the 2018 Urban 5th Generation Marine Exploration and Experimentation Exercise in Camp Pendleton, California.
- Participation at high profile defence trade shows globally, including Eurosatory in Paris, DSA in Malaysia, and FIDAE in Chile. As an Australian defence company, DroneShield receives substantial support from the Australian Government, ranging from arranging for the Company to exhibit at such global tradeshows and covering exhibiting costs, to providing an R&D Tax Incentive Grant and an Export Market Development Grant, as well as introductions to key defence prime relationships and generally promoting DroneShield globally through Australian Government's network of Austrade offices around the globe.
- The Company established a new office in Washington DC alongside of the existing R&D/customer demonstration site in Virginia. The new office allows for more effective interactions with U.S. Government and other customers.
- Continuous development of DroneShield's sales pipeline, which 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.
- Consistent with the requirements of potential end-users, DroneShield continued its product development activities, launching DroneGun Tactical™, a rifle-shaped jammer without a backpack and RadarZero, a revolutionary small drone detection radar. DroneShield also rolled out a vehicle-based Rapid Scout mobile counterdrone solution in partnership with the company ISI.

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 U.S. do not require U.S. regulatory approval. The Company expects to receive such approval, if it is granted, shortly, 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.

- The Company obtained a NATO Stock Number for DroneGun MKII, certifications for safety for human use for both DroneGun MKII™ and DroneGun Tactical™, and a safety of deployment at airports certificate for DroneSentinel™ and DroneSentry™.
- DroneShield was awarded an additional patent by the United States Patent and Trademark Office. The patent relates to acoustic detection of drones.
- The overall government and civil infrastructure demand for drone detection and mitigation products continued to increase, against the backdrop of nearly daily barrage of news about drone threats. In particular, ISIS has released a number of videos depicting weaponised consumer drones attacking military and civilian targets.
- The Company continued to attract very substantial positive publicity, with hundreds of articles and news items covering DroneShield globally.
- Advanced 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.” The MOD Order places DroneShield at the forefront of the industry and has had a substantial positive effect on DroneShield’s corporate discussions with larger industry players.

Significant Events after the Balance Date

The following employee share options have been awarded and issued subsequent to the half-year end:

- Zero Exercise Price Options 2,459,384 options issued on 17 August 2018
Exercise price of \$0.00, vesting subject to DroneShield achieving \$10m revenue in any 12-month period within 36 months of the date of issue of the Options; or Automatic vesting in the event that DroneShield is subject to a takeover or other change of control transaction. Expiring on 17 October 2021.


No other matter or circumstance has arisen since 30 June 2018 which has significantly affected or may significantly affect:

- The Group’s operations in future financial years; or
- The results of those operations in future financial years; or
- The Group’s state of affairs in future financial years.

Auditor’s Independence Declaration

A copy of the auditor’s independence declaration as required under the Section 307C of the *Corporations Act 2001* is set out on page 6.

This Directors’ Report is made in accordance with a resolution of Directors.



Peter James
Independent Non-Executive Chairman

Sydney, NSW
22 August 2018



Quality Audit Services

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of DroneShield Limited for the half-year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of DroneShield Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'A G Smith'.

Sydney, NSW
22 August 2018

A G Smith
Director

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Half-year ended 30 June 2018 \$	Half-year ended 30 June 2017 \$
Revenue	3	236,758	225,343
Other revenue and income		139,645	38,434
Cost of sales		(188,790)	(221,356)
Product development expense		(1,137,044)	(827,056)
Sales and customer service expense		(470,835)	(568,764)
Corporate and support expense		(1,598,349)	(787,713)
Corporate governance expense		(224,302)	(231,030)
Share based payment expense	2	(322,472)	(565,996)
Loss before income tax		(3,565,389)	(2,938,138)
Income tax expense		-	-
Loss after income tax		(3,565,389)	(2,938,138)
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Adjustments on translation of foreign controlled entity		(6,514)	(32,735)
Total comprehensive loss for the period		(3,571,903)	(2,970,873)
Basic loss per share	11	(0.02)	(0.02)
Diluted loss per share	11	(0.02)	(0.02)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

	Note	30 June 2018 \$	31 December 2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	4	2,054,300	2,362,894
Trade and other receivables	5	341,670	207,851
Inventories	6	201,605	499,194
Total current assets		2,597,575	3,069,939
Non-current assets			
Plant, equipment and intangible assets	7	1,028,916	387,770
Total non-current assets		1,028,916	387,770
Total assets		3,626,491	3,457,709
LIABILITIES			
Current liabilities			
Trade payables		304,973	164,672
Provisions		120,120	120,214
Other liabilities	8	827,407	254,170
Total current liabilities		1,252,500	539,056
Total liabilities		1,252,500	539,056
Net assets		2,373,991	2,918,653
EQUITY			
Share capital	9	9,964,169	7,533,586
Reserves		6,547,799	5,957,655
Accumulated losses		(14,137,977)	(10,572,588)
Total equity		2,373,991	2,918,653

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

	Contributed equity \$	Options reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2017	3,400,993	5,436,686	41,480	(5,489,408)	3,389,751
Transfer from option reserve to accumulated losses	-	(393,433)	-	393,433	-
<i>Transactions with owners in their capacity as owners:</i>					
Options exercised	966,020	-	-	-	966,020
Options issued	-	565,996	-	-	565,996
Contributions of equity, net of transaction costs	1,181,413	-	-	-	1,181,413
	<u>2,147,433</u>	<u>565,996</u>	<u>-</u>	<u>-</u>	<u>2,713,429</u>
Exchange difference on translation of foreign operations	-	-	(32,735)	-	(32,735)
Loss for the period	-	-	-	(2,938,138)	(2,938,138)
Total comprehensive loss for the period	-	-	(32,735)	(2,938,138)	(2,970,873)
Balance at 30 June 2017	<u>5,548,426</u>	<u>5,609,249</u>	<u>8,745</u>	<u>(8,034,113)</u>	<u>3,132,307</u>
Balance at 1 January 2018	7,533,586	5,941,579	16,076	(10,572,588)	2,918,653
Transfer from option reserve to accumulated losses	-	-	-	-	-
<i>Transactions with owners in their capacity as owners:</i>					
Options exercised	306,711	-	-	-	306,711
Options issued	-	322,472	-	-	322,472
Contributions of equity, net of transaction costs	2,123,872	274,186	-	-	2,398,058
	<u>2,430,583</u>	<u>596,658</u>	<u>-</u>	<u>-</u>	<u>3,027,241</u>
Exchange difference on translation of foreign operations	-	-	(6,514)	-	(6,514)
Loss for the period	-	-	-	(3,565,389)	(3,565,389)
Total comprehensive loss for the period	-	-	(6,514)	(3,565,389)	(3,571,903)
Balance at 30 June 2018	<u>9,964,169</u>	<u>6,538,237</u>	<u>9,562</u>	<u>(14,137,977)</u>	<u>2,373,991</u>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

	Note	Half-year ended 30 June 2018 \$	Half-year ended 30 June 2017 \$
Cash flows from operating activities			
Receipts from customers		467,389	261,710
Payments to suppliers and employees		(2,887,542)	(3,013,109)
Net cash flows from (used in) operating activities		(2,420,153)	(2,751,399)
Cash flows from investing activities			
Purchase of plant and equipment		(589,055)	(65,002)
Net cash flows from (used in) investing activities		(589,055)	(65,002)
Cash flows from financing activities			
Interest income on cash deposits		22,361	32,624
Proceeds from option exercise		306,711	966,020
Proceeds from share and option issue		2,554,901	1,278,590
Share issue transaction costs		(156,842)	(97,177)
Net cash flows from (used in) financing activities		2,727,131	2,180,057
Cash and cash equivalents at beginning of the half-year	4	2,362,894	3,497,077
Net increase (decrease) in cash and cash equivalents		(282,077)	(636,344)
Exchange rate adjustments to balances held in foreign currencies		(26,517)	(12,351)
Cash and cash equivalents at the end of the half-year	4	2,054,300	2,848,382

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard ("AASB") 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in the annual financial report and should be read in conjunction with the most recent annual financial report (being that for the year ended 31 December 2017), and any public announcements made by the Company during the reporting period.

1. Summary of Significant Accounting Policies

(a) Basis of preparation

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Going Concern

During the half-year ended 30 June 2018, the Group incurred losses of \$3,565,389 and net cash outflows from operating activities of \$2,420,153, with cash on hand at 30 June 2018 of \$2,054,300.

This consolidated financial report has been prepared on the basis that the Group will continue to meet its commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business.

The Group's ability to continue as a going concern is dependent on generating additional revenues from operations, raising further capital and / or reducing costs, thus resulting in a material uncertainty that may cast doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe that there are reasonable grounds to believe that the Group will continue as a going concern after consideration of the following factors:

- as disclosed to the ASX in June 2018, a \$3,200,000 order was received from the Middle Eastern Ministry of Defence for 70 DroneGuns™. During the period, a deposit in connection with the order was received, the balance is expected to be received over an approximately five month period following the regulatory approval of the order.²
- further to the Middle Eastern Order, the Group expects to generate additional revenues from the sale of DroneGun and DroneShield detection products within the next six months and beyond.
- the Company has the ability to issue additional shares to raise further working capital and has been successful in doing this previously, as evidenced by the successful capital raising completed during financial year ended 31 December 2017 and more recently in March 2018.
- the Group also has the ability to scale down its operations in order to curtail expenditure in the event insufficient cash is available to meet projected expenditure.

(b) Changes in Accounting Policy

From 1 January 2018, the Group has applied two new accounting policies:

- AASB 15 *Revenue from Contracts with Customers* ("AASB 15"); and
- AASB 9 *Financial Instruments* ("AASB 9")

This note explains the impact of the adoption of these standards on the Group's financial statements.

AASB 9 has had no material impact on the Group.

In accordance with the transition provisions in AASB 15, comparative figures have not been restated. AASB 15 permits the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of retained earnings.

The Group has assessed the impact of AASB 15 and consider that the cumulative impact of initially applying AASB 15 is immaterial given the nature of the sales in prior years and the value of these sales. Therefore there has been no impact on the comparative information or opening retained earnings as at 1 January 2018.

² 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 U.S. do not require U.S. regulatory approval. The Company expects to receive such approval, if it is granted, shortly, 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.

Notes to the Financial Statements *continued*

(b) Changes in Accounting Policy *continued*

The new accounting policy adopted under AASB 15 for revenue is as follows:

Outright Sale of Goods

The Group sells a range of drone detection and jamming products. Sales are recognised when control of the products has transferred to the purchaser and there is no unfulfilled obligation that could affect the purchaser's acceptance of the products. The group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision (if considered necessary).

In other instances, where items have been invoiced prior to a period end, but the above obligations have not been satisfied, a receivable is recognised and a liability for revenue received in advance is recognised in other current liabilities. Similarly, when a deposit is received before a period end but the above obligations have not been satisfied, a liability for revenue received in advance is recognised in other current liabilities.

Subscription Sales

The Group generates revenues from subscription sales which may also include transferring ownership of goods to the customer. When the subscription is not distinct from the other promised goods in the contract, the Group accounts for the promise to grant a subscription and those promised goods or services together as a single performance obligation, and the revenue from such transactions is recognised on a monthly basis, with equal amounts for each month recognised over the life of the subscription agreement.

Where the subscription is distinct from the other promised goods in the contract, the Group recognises the revenue from the sale of the promised goods in accordance with the Sale of Goods accounting policy above, based on the stand-alone selling price of these goods, and the remaining revenue is allocated to subscription revenue and recognised on a monthly basis, with equal amounts for each month recognised over the life of the subscription agreement.

Interest income

Interest income is reported on an accrual basis using the effective interest method.

(c) New accounting standards and interpretations

DroneShield has adopted all of the new, revised or amended Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact to group	Application date of standard	Application date for group
AASB 16 Leases	AASB 16 is a new standard that replaces AASB 117. The new standard removes the distinction between operating and finance leases, recognising all lease assets and liabilities on the balance sheet, with limited exceptions for short term leases and leases of low value assets	<p>This standard changes how the group accounts for its current operating leases, which primarily relate to its premises. All such leases will be brought onto the Statement of Financial Position by the recognition of a 'right to use' asset, together with a liability for the present value of lease payments for the life of the lease. The future recognition of lease expenses will change with more expenses recognised in the early periods of a lease.</p> <p>The group has not yet calculated the financial impact of these changes.</p>	1 January 2019	1 January 2019

Notes to the Financial Statements *continued*

2. Options issued

During the half-year, a number of options were issued to Directors, management and other employees of the entity. Using the Black Scholes Model, the fair value of each option is as set out below and based on the following criteria/assumptions. The options below were issued at various dates between January 2018 and June 2018.

	Class A Options ³	Class E Options	Class F Options	Class G Options ⁴	Class H Options	Class J Options	Class K Options ⁴	Zero Price Options ⁵	Other Options ⁶	Total option expense for the year
No of new options	3,041,548	250,000	1,150,000	1,150,000	500,000	125,000	125,000	21,000,000		
Expiry (years)⁷	1.25	3	3	4	4	3	4	3		
Exercise price (\$)	0.22	0.30	0.30	0.30	0.30	0.50	0.50	0.00		
Vesting period (years)	0	0.02	0.38	0.91	0	0.41	1.41	3		
Underlying volatility	87.7%	87.7%	87.7%	87.7%	87.7%	87.7%	87.7%	n/a		
Risk free interest rate	1.50%	2.10%	2.13%	2.28%	2.28%	2.23%	2.35%	n/a		
Calculated fair value of each option (\$)	0.0910	0.1433	0.4831	0.3706	0.1190	0.0835	0.1013	0.1883		
Total expense recorded for the period ended 30 June 2018 (\$)	-	35,823	88,448	20,823	59,524	10,432	3,904	83,039	20,479	322,472

³ Class A options were issued to brokers as part of the capital raise in March 2018 and included as part of share transaction costs and treated as a deduction from equity (of \$274,186, see Note 9).

⁴ Class G and K options carry the escrow restrictions of continuous employment to 29 March 2019 and 22 June 2019 respectively.

⁵ Zero Price ("Zepo") options are subject to the following vesting conditions being satisfied: DroneShield achieving \$10m revenue in any 12-month period within 36 months of the date of issue of the Options; or Automatic vesting in the event that DroneShield is subject to a takeover or other change of control transaction. As there is no exercise price and no near-term expectations of dividends for DroneShield, the value of the option (excluding the impact of vesting conditions) determined using Black Scholes is equivalent to the price of a DroneShield share. The value of the Options is based on the spot price of a DroneShield share on the date at which the options were issued. Based on the sales pipeline and existing orders, management estimate that the options will vest within the expiry period. At this stage, the vesting period is assumed to be three years, which will be reviewed against updated pipeline and forecasts each six months.

⁶ \$20,479 relates to the vesting expense from options issued in prior periods, comprising option expense for Classes F, H, J and K, offset by a credit to profit or loss from the lapse of some unvested Class J and K options during the period. Refer to 2017 Annual Report for details of options issued in prior periods.

Notes to the Financial Statements *continued*

	30 June 2018 \$	30 June 2017 \$
3. Revenue		
Subscription sales	37,464	51,674
Hardware sales	199,294	154,378
Shipping income	-	19,291
Total revenue	236,758	225,343

A \$3,200,000 order was received from the Middle Eastern Ministry of Defence for 70 DroneGuns™. During the period, a deposit in connection with the order was received, the balance is expected to be received over an approximately five month period following the regulatory approval of the order. The deposit received is recognised in Other Liabilities on the Balance Sheet as Revenue received in advance. The Revenue in relation to the order will be recognised as the order is fulfilled.

	30 June 2018 \$	31 December 2017 \$
4. Cash and cash equivalents		
Cash at bank and in hand	654,300	312,894
Short-term deposits	1,400,000	2,050,000
Total cash and cash equivalents	2,054,300	2,362,894

5. Trade and other receivables		
Trade receivables	246,738	114,128
Prepayments	94,932	93,723
Total trade and other receivables	341,670	207,851

6. Inventories		
Finished goods inventory	201,605	499,194

Notes to the Financial Statements *continued*

7. Plant and equipment and intangible assets

	R&D equipment \$	Demonstratio n equipment \$	Office equipment \$	Plant & Equipment \$	Intangible Assets (software) \$	Total \$
Balance at 1 January 2018	29,356	286,925	61,927	-	9,562	387,770
Additions	392,191	210,268	17,635	137,349	11,441	768,884
Transfer between categories	(3,963)	-	-	-	-	(3,963)
Disposals	(74,676)	-	(8,310)	-	-	(82,986)
Depreciation/Amortisation	(1,179)	(44,495)	(8,815)	-	(2,272)	(56,761)
Exchange differences	(48)	13,770	2,250	-	-	15,972
Balance at 30 June 2018	341,681	466,468	64,687	137,349	18,731	1,028,916

	30 June 2018 \$	31 December 2017 \$
Accrued expenses	326,175	112,975
Revenue received in advance	501,232	141,195
Total other liabilities	827,407	254,170
	No. of shares (note a)	\$

9. Contributed equity

Balance at beginning of period (1 January 2018)	156,395,893	7,533,586
Shares issued following option exercise during period (note b)	1,394,140	306,711
Shares issued from Share Placement (note c)	12,166,193	2,554,900
Transaction costs in relation to Shares issued from Share Placement (note d)		(431,028)
Balance at end of period (30 June 2018)	169,956,226	9,964,169

Note (a): The number of shares disclosed is the number of shares in DroneShield Limited.

Note (b): During the first half of 2018, 1,394,140 listed options were exercised, resulting in the issue of one new share in DroneShield Limited for each option. With an exercise price of \$0.22 per option, the total cash received from the exercise of options during the period was \$306,711.

Note (c): In March 2018, the Company issued 12,166,193 shares in a Share Placement. The issue price was \$0.21 and the total cash received from the placement of shares was \$2,554,900.

Note (d): Included within transaction costs are the value of options issued to brokers of \$274,186. The assumptions used in valuing these options has been set out in Note 2.

Notes to the Financial Statements *continued*

10. Shares and options

	Number of Shares	Number of Unlisted Options	Number of Listed DR00 options	Number of Performance Shares
Opening balances at 1 January 2018	156,395,893	30,200,000	34,478,988	45,000,000
March Placement shares and options issued	12,166,193	3,041,548	-	-
Performance shares lapsed during the period	-	-	-	(15,000,000)
Options exercised during the period	1,394,140	-	(1,394,140)	-
Options lapsed during the period	-	(1,150,000)	(33,084,848)	-
Options issued to Directors and Management	-	24,300,000	-	-
Closing balance at 30 June 2018	169,956,226	56,391,548	-	30,000,000

Unlisted Options:

24,300,000 Unlisted Options were issued to Directors and Management during the half-year to 30 June 2018. These Options are subject to various escrow and vesting conditions relating to length of employment with the Company. 1,150,000 of these options lapsed due to staff leaving the Company. See Note 2 for further details.

3,041,548 Class A Options were issued to Patersons Securities Limited as part of their compensation for acting as Lead Manager for the Share Placement that occurred in March 2018. These options have an exercise price of \$0.22 and expire on 14 June 2019.

Listed DR00 Options:

During the half-year to 30 June 2018, 1,394,140 listed options were exercised, generating \$306,711 in cash. The remaining 33,084,848 options lapsed on 22 June 2018.

Performance shares:

As part of the acquisition of DroneShield LLC by DroneShield Limited, 45,000,000 Performance Shares were issued to DroneShield LLC's existing shareholders. The performance shares carry the following vesting conditions, relating to the achievement of various performance milestones (with Revenue and EBIT targets in relation to the acoustic drone detection system).

Class A Performance Shares lapsed on 22 June 2018.

Shareholders	Vesting date	Performance Shares	Number on issue at 30 June 2018	Number on issue at 31 December 2017
Class A Performance Shares	22-Jun-18	30 day Volume weighted average price ("VWAP") >\$0.30 + 20 paid system installations within 24 months of listing date	-	15,000,000
Class B Performance Shares	22-Jun-18	Revenue: \$2,500,000 in any 12 month period or \$7,000,000 cumulative within 36 months of listing date	15,000,000	15,000,000
Class C Performance Shares	22-Jun-18	EBIT: \$1,000,000 annual (financial year) or \$3,000,000 cumulative within 36 months of listing date	15,000,000	15,000,000

Notes to the Financial Statements *continued*

	30 June 2018 \$	30 June 2017 \$
11. Earnings (loss) per share		
(a) Basic earnings (loss) per share		
Total basic earnings (loss) per share attributable to the ordinary equity holders of the company	(0.02)	(0.02)
(b) Dilutive earnings per share		
Dilutive earnings (loss) per share attributable to the ordinary equity holders of the company	(0.02)	(0.02)
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	162,329,612	138,369,155

Options and Performance Shares

Options on issue (Class A to Class K options- refer to Note 2 and DroneShield's 2017 Annual Report) and Performance Shares set out in note 9 are not included in the calculation of diluted earnings per share because they are considered to be antidilutive for the period ended 30 June 2018. These options and shares could potentially dilute basic earnings per share in future periods.

12. Segment information

The Group operates in one operating segment, being the development and commercialisation of hardware and software technology for drone detection and security.

This operating segment is monitored by the Group's chief operating decision maker and strategic decisions are made on the basis of adjusted segment operating results. The chief operating decision maker of the Group is the CEO.

The following tables present certain information regarding geographical segments for the half-years ended 30 June 2018 and 30 June 2017.

Segment performance 30 June 2018	USA \$	Australia \$	Elimination \$	Total \$
External sales	767	235,991	-	236,758
Other revenue and income	305,597	104,548	(294,522)	115,623
Interest income	-	24,022	-	24,022
Total segment revenue	306,364	364,561	(294,522)	376,403
Depreciation	36,784	19,976	-	56,761
Finance costs	-	-	-	-
Income tax expense	-	-	-	-
Loss after income tax expense	1,313,133	2,252,256	-	3,565,389
<i>Assets and liabilities</i>				
Segment assets	563,895	6,536,359	(3,473,763)	3,626,491
Segment liabilities	(3,623,861)	(1,102,402)	3,473,763	(1,252,500)

Notes to the Financial Statements *continued*

12. Segment information *continued*

Segment performance 30 June 2017	USA \$	Australia \$	Elimination \$	Total \$
External sales	10,326	215,017	-	225,343
Other revenue and income	-	5,810	-	5,810
Interest income		32,624	-	32,624
Total segment revenue	10,326	253,451	-	263,777
Depreciation	(3,148)	(5,401)	-	(8,549)
Finance costs	-	-	-	-
Income tax expense	-	-	-	-
Loss after income tax expense	(1,224,141)	(1,713,997)	-	(2,938,138)
<i>Assets and liabilities</i>				
Segment assets	213,892	4,721,378	(1,373,467)	3,561,803
Segment liabilities	(1,474,203)	(328,759)	1,373,467	(429,496)

13. Events after the reporting date

The following employee share options have been awarded and issued subsequent to the half-year end:

- Zero Exercise Price Options 2,459,384 options issued on 17 August 2018
Exercise price of \$0.00, vesting subject to DroneShield achieving \$10m revenue in any 12-month period within 36 months of the date of issue of the Options; or Automatic vesting in the event that DroneShield is subject to a takeover or other change of control transaction. Expiring on 17 October 2021

No other matter or circumstance has arisen since 30 June 2018 which has significantly affected or may significantly affect:

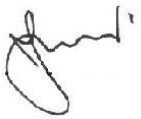
- The Group's operations in future financial years; or
- The results of those operations in future financial years; or
- The Group's state of affairs in future financial years.

Directors' Declaration

In the opinion of the Directors:

- (a) the consolidated financial statements and notes set out on pages 7 to 18 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Peter James
Independent Non-Executive Chairman

Sydney, NSW
22 August 2018



DRONESHIELD LIMITED
ABN 26 608 915 859

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of DroneShield Limited:

We have reviewed the accompanying half-year financial report of DroneShield Limited ("the company") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd Assurance (NSW) Pty Ltd ABN 96 153 077 215

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HLB Mann Judd is a member of  International. A world-wide organisation of accounting firms and business advisers.



DRONESHIELD LIMITED
ABN 26 608 915 859

INDEPENDENT AUDITOR'S REVIEW REPORT (CONTINUED)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of DroneShield Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Going Concern

We draw attention to Note 1(a) in the financial report, which indicates that the Group incurred a net loss of \$3,565,389 and had net cash outflows from operating activities of \$2,420,153 during the half-year period ended 30 June 2018, and cash of \$2,054,300 at 30 June 2018. These events or conditions, along with other matters as set forth in Note 1(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter

HLB Mann Judd Assurance (NSW) Pty Ltd
Chartered Accountants

Sydney, NSW
22 August 2018

A G Smith
Director