



DRONESHIELD

Quarterly Report

For the date ending
31 December 2019

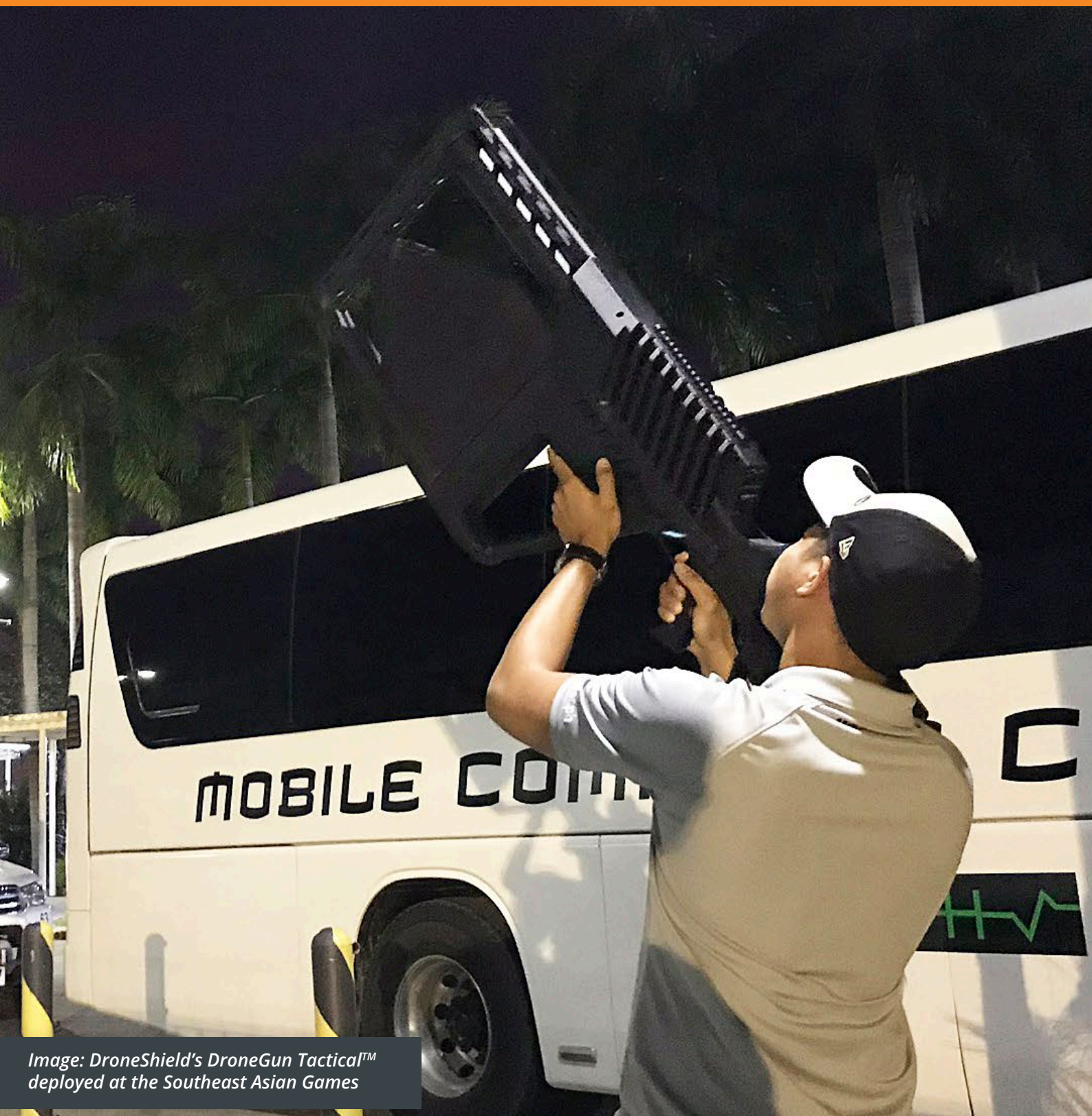


Image: DroneShield's DroneGun Tactical™ deployed at the Southeast Asian Games

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 December 2019 and its Appendix 4C quarterly cash flow report for the same period.

The quarter's key highlights are as follows.

- ✓ ***The Company's cash inflows from customers were approximately \$752,000, well over double those of the previous quarter's.***
- ✓ ***Approximately \$3.2 million in customer cash receipts in 2019 (not including grants), a substantial increase on the \$1.3 million of cash receipts in 2018.***
- ✓ ***The Australian Department of Defence placed its third order with DroneShield – DroneShield has secured 100% of the DoD's reported counterdrone business to date.***
- ✓ ***DroneShield continues to work towards the execution of a formal contract in relation to the previously announced \$60 million - \$70 million Middle Eastern order.¹***
- ✓ ***The fact that DroneShield's system purchased by the customer prevented a real-life threat to the President of the Philippines has highlighted DroneShield's leadership position globally.***

Financial Performance

DroneShield's customer cash receipts for the quarter were \$752,000, well over double those of the previous quarter. That is, following a temporary reduction in customer receipts during the September quarter, DroneShield has returned to its upward march in cash receipts from customers during the December quarter. 2019 was a transformative year for DroneShield in many respects, including in that during the year, the Company started receiving substantive revenues from sales of its products. The Company recorded \$3.162 million in cash receipts from customers during 2019, 2.5x the cash receipts for 2018.

The December quarter saw the Company incur net cash outflows before cashflows from financing of \$2.24 million. While this is an improvement relative to the cash outflow in the previous quarter, this is a substantial outflow compared to that of the Company's prior quarters (the second half of 2018 and first half of 2019 had seen the Company consistently reduce its net cash outflows, including to a negligible level in Q2 2019). Several one-off expenses contributed to the net cash outflow during the quarter. In particular, as foreshadowed in the Company's prior announcements in relation to the proceeds of its August 2019 capital raising, during the quarter, the Company incurred substantial expenditure on inventory. This inventory expenditure included both the production costs associated with the remainder of the \$3.2 million Middle Eastern order being currently manufactured, and inventory build-up in anticipation of several other large near term orders, to enable faster delivery and customer payment.

Image: DroneGun MKIII™ units being assembled



The Company anticipates a substantial improvement in its cashflows in the current quarter for the following reasons:

- The Company's gross cash outflow (before cash receipts from customers and option exercise) during

¹ Necessarily, not all, and there can be no assurance that any, of the Company's sales opportunities will result in sales. There is no assurance that the bid referenced in this paragraph will result in a sale.

the December quarter was \$3.14 million. As the Company is not currently incurring the costs referenced above at the same level, the Company estimates such gross cash outflows to be reduced to \$2.21 million in the current quarter, an improvement of close to \$1 million.

- On the cash inflow side, the Company expects to record substantially higher cash receipts this quarter. The following areas are expected to contribute to higher cash receipts this quarter:
 - In June 2018, the Company announced that it received a \$3.2 million Middle Eastern defence order, to be delivered over a period of time. To date, the Company has received \$1.3 million of the \$3.2 million from the customer. During the December quarter (and continuing into the current quarter), the Company manufactured the units that it will be delivering this quarter under the contract, and incurred inventory and staff costs associated with such manufacturing accordingly. The Company expects to deliver the balance of the order and receive the balance of the contracted amount (i.e. \$1.9 million) in the current quarter.
 - That contract aside, DroneShield is currently working on delivering an additional \$400,000 of orders that have been placed, and which have not yet been paid for, by customers. During the December quarter, the Company manufactured most of the units that it will be delivering this quarter to the customers, and incurred inventory and staff costs associated with such manufacturing accordingly. The Company expects to receive these contracted amounts in the current quarter or Q2 2020.
 - Additionally, there have been several customer orders informally confirmed for this quarter, in excess of \$1 million, which the Company expects to formalize, deliver and receive payment for in the current quarter.
 - Please see the *Sales* section below for a discussion of the Company's sales progress during the quarter, as well as the Company's current pipeline. The timing of potential sales that have not been contracted for is difficult to predict, however, with over \$3 million in customer cash receipts during the year and over \$5.9 million in customer orders in the recent 18 months, the Company has now established a track record of being able to contract for, deliver, and receive payment for, its products.
 - The Company expects approximately \$900,000 to be received either in the current quarter or early Q2 2020 through the R&D Tax Incentive Grant from the Australian Government. DroneShield has successfully claimed the R&D Tax Incentive Grant since 2016.

As at 31 December 2019, DroneShield's cash balance was \$5.48 million.

Please note that, as discussed above, as is required by the Appendix 4C format, DroneShield has estimated a gross cash outflow for the March 2020 quarter in the Appendix 4C, however, this gross cash outflow estimate will not be reflective of the Company's net cash outflows, which, after receipts from customers and grants, are expected to be substantially more positive than the gross cash outflow.

Review of Selected Deployments During the Quarter

In the past, even the most capable law enforcement and military agencies have generally been helpless against the threat of rogue drones. While counterdrone equipment is designed to change this, until recently, the Company was not aware of any instances in which its or any of its competitors' products were publicly reported to have directly saved lives or produced tangible law enforcement outcomes for their users. That changed during the quarter, when DroneShield's systems were reported to have potentially saved the life of the Philippines' President, and on a separate occasion to have assisted U.S. law enforcement in locating and arresting a drone operator whose actions threatened a major football stadium during a busy event.

- DroneShield had sold its products to enable the organizers to provide counterdrone protection for the 30th Southeast Asian Games (SEA Games) held in the Philippines from 30 November 2019 to 11 December 2019. The Games included 11 participating nations and approximately 9,000 athletes

and consisted of 530 events across 56 sports. The event attracts an audience of hundreds of millions of viewers.

The following has been reported by the press publicly. During the Opening Ceremony of the SEA Games, the combined elements of the Presidential Security Group (PSG) and PHISGOC Games Safety & Security Counter-Drone Team successfully disabled seven commercial drones over the course of an approximately 45-minute period.

Four of the nefarious drones simultaneously appeared along the flight path of the Presidential helicopter minutes before his arrival at the Ceremony, which prompted the PSG to deploy the DroneShield systems to prevent the drones from hitting the rotor blades of the helicopter, potentially causing a catastrophic crash that would have endangered the life of the Philippines President Rodrigo Duterte as well as Brunei Sultan Hassanal Bolkiah who was also in same helicopter².



Image: DroneShield's DroneGun Tactical™ system deployed at the 30th SEA Games event

- In a separate incident, DroneShield's system was being utilised at a major U.S. college football team stadium. This deployment was part of the university's efforts to provide protection against unmanned aerial vehicles.

As has become common at sporting events, an unauthorised drone was flown over the stadium at the end of a game's third quarter. In the absence of the DroneShield deployment, the drone and its controller would have operated with impunity. However, thanks to DroneShield's equipment, the law enforcement officers on the scene were able to track the drone in real-time, recover it rapidly and thus secure the site at which over a hundred thousand members of the public were present. Their efforts ultimately led to the arrest of the drone's pilots.

² <https://www.gmanetwork.com/news/sports/content/718866/7-unidentified-drones-shot-down-at-sea-games-opening-authorities/story/>

Sales

DroneShield expanded the range of its customers and sales during the quarter, and has a substantial near-term sales pipeline.³ The Company currently offers its products in approximately 70 countries and the diversity of its pipeline is one of its key strengths. Importantly, with a wide distribution network and a history of orders from a variety of customers, DroneShield is not dependent on any one customer or any one existing or potential contract for its success. The update below does not seek to cover each of the Company's sales opportunities or even each type of the Company's sales opportunities, which are numerous.



Images: DroneShield European distributor conducting a demo of DroneShield products



Images: DroneShield Asia demo

The below are five key near term themes that the Company believes to be included in its major sales drivers:

The Middle East

The \$3.2 million prior Middle Eastern defence order has established the Company's ability to sell in the Middle East. Several countries in the region have been the subject of highly publicised drone attacks by non-state actors. The current Iran situation (refer to the "Environment" section below) is also having a positive effect on DroneShield's business in the region.

The Company is in a number of sales processes in the Middle East, in multiple countries, across military, Ministry of Interior / law enforcement, and oil facility customers. These opportunities are at various stages of

³ Necessarily, not all, and there can be no assurance that any, of the Company's sales opportunities will result in sales.

development, including progressing towards contract execution. New opportunities are being added to the pipeline frequently, as threats manifest themselves, and budgets get allocated.



Image: 10 million Kuwaiti Dinars (approx A\$50m) allocated in 2020 budget for counterdrone equipment

Among other potential orders, the Company has previously disclosed that it was working on a Middle Eastern sovereign order estimated to have a value of A\$60 million - \$70 million and that it had been awarded the preferred bidder status for the contract. The contract has undergone negotiation process, its form has been agreed, and the contract is currently awaiting governmental approval and execution.⁴

It is important to note that the Middle Eastern procurement processes are generally not as streamlined or scheduled as is the case in the West, often resulting in delays in contract award and payment.

Separately, during the quarter, DroneShield progressed a substantial opportunity with a large Middle Eastern oil producer that has been the subject of drone attacks in the recent months. Subsequently, in January 2020, DroneShield received an urgent request to provide a pilot DroneSentry™ deployment for the customer. The Company is working towards a full rollout across multiple customer facilities following the pilot, which is expected to run for up to three months.

The United States Department of Defense

During the December quarter, DroneShield bolstered its U.S. office by adding business development staff to support its focus on the U.S. military and Government agencies. The US DoD has been increasing its focus on the counterdrone space, with a dedicated counterdrone office based in Arlington Virginia and managed by the U.S. Army currently being set up for the first time. The DoD's counterdrone office's initial focus, according to statements by Undersecretary of Defense for Acquisition and Sustainment Ellen Lord will include review of all counterdrone activities conducted to date across the U.S. military. Its brief is understood to include a recommendation for several selected systems that will be streamlined across the U.S. DoD.

"One of the challenges is that we know that the adversary is very agile and updates their [tactics, techniques and procedures] ... very quickly," Lord has been reported to have said. "We are looking at a very nimble

⁴ There can be no assurance that this potential contract will be signed or result in a sale.

system where we can push patches in the same day, if you will, so that we again can stay ahead of the threat". This agility requirement is expected to bestow a substantial advantage on a smaller contractor such as DroneShield. DroneShield is working on being selected to be part of this process, given that the process is likely to result in substantial contracts.

In the last month, DroneShield's U.S. subsidiary DroneShield LLC has been shortlisted by the U.S. Army for the xTechSearch, to be held in the next month, on the basis of the extent of DroneShield's artificial Intelligence technologies incorporated across the Company's radiofrequency and electro-optics sensor suites.

xTechSearch is sponsored by U.S. Army's Assistant Secretary of the Army for Acquisition, Logistics, and Technology. It enables the selected private sector companies to collaborate with the Army to tackle the most critical Army modernisation challenges. The program provides non-dilutive funding to selected private sector companies to demonstrate their technologies pertaining to Army challenges. The program also drives to integrate these businesses into the Army's Science and Technology ecosystem by providing research opportunities with Army labs, including authorised access to the Army's organic intellectual and technical capital.

There are a number of additional U.S. DoD and Government agency processes that DroneShield is participating in (directly and as a sub-contractor to defence primes) and in which DroneShield or its prime head contractor has been shortlisted by the U.S. DoD.

Australian Department of Defence

During the quarter, DroneShield won its second order with the Australian Department of Defence (DoD) for its RfPatrol™ portable unmanned aerial system (drone) detection devices. DroneShield won the contract following an open tender process. The contract was for approximately A\$700,000, consisting of a combination of an initial purchase price and an annual subscription component. DroneShield has received the payment of the initial purchase price. Additionally, during the quarter DroneShield won another contract for DroneGun Tactical™ rifle-shaped portable drone countermeasures from the Australian DoD, in the amount of approximately \$300,000. DroneShield received payment for that contract in January 2020.



Having won all three publicly announced counterdrone contracts tendered by the Australian military in the last 12 months, the Company believes it is well placed for further business with this customer, and is engaging in continuous contact with the Australian DoD in regards to additional contracts. DroneShield's status as the only native Australian counterdrone manufacturer, and the Australian Government's drive to grow its domestic defence industry, further cement DroneShield's ability to continue securing Australian DoD contracts.

Image: DroneShield's shipment to Australian DoD ready for dispatch

The United Kingdom – Partnership with BT

During the September 2019 quarter, DroneShield announced a partnership with BT, a global leader in telecommunications solutions with operations in 180 countries, and the largest telecommunications company in the United Kingdom. During the quarter, a dedicated showcase test site for DroneShield's products was established by BT at a decommissioned UK Royal Airforce base. BT's salesforce has made substantial progress in developing the UK pipeline across a number of customer segments, including defence, law enforcement, airports, venues, critical infrastructure and others.

Further, during the quarter, UK Government's Centre for Protection of National Infrastructure ("CPNI") has formally certified DroneShield's DroneSentinel™ multi-sensor counterdrone system. As a result, DroneSentinel™ has been included in the CPNI Catalogue of Security Equipment ("CSE"). CSE forms an approved list of products for deployment across various critical infrastructure customers in the UK, such as airports, stadiums, and other key sites.

CPNI's certification is effectively the world's first formal Government certification in the industry, substantially reducing the procurement cycle in the nascent counterdrone space by giving prospective customers certainty of product quality. The Company expects this certification to drive significant additional end customer interest in the UK and also globally.

Initial customer orders resulting from the BT partnership are anticipated as early as during the current quarter.

Airports

Airports around the world continue to experience drone-related interruptions, and have commenced equipment trialling and acquisition processes.

DroneShield has recently been accepted for membership in ACI (Airports Council International) Europe. ACI Europe represents over 500 airports in 45 European countries, including virtually every major European airport. DroneShield is the only counterdrone company that has been accepted for membership in ACI Europe.

Additionally, DroneShield has been accepted for membership with EUROCAE (European Organisation for Civil Aviation Equipment) in relation to its counterdrone strategy.

In December, DroneShield successfully completed trials of its detection equipment at a Tier 1 West European airport, as part of that airport's procurement process. The trial was closely observed by other airports in the region. Additional major trials are expected during the current and next quarters.

Near-Term High-Conviction Pipeline

The current summary of the Company's high-conviction pipeline is as follows:

Deal	Region	Total expected contract value over time, if awarded (A\$) ⁵	Target timing of initial payment (if awarded)	Comments
1	Middle East	\$60mil - \$70mil	March 2020 quarter	DroneShield has been awarded preferred bidder status, has agreed the form of the agreement with the counterparty and is currently awaiting the execution of the contract by the relevant Government
2	Asia	\$5mil - \$10mil	March - June 2020 quarter	RfPatrol™ product (DroneShield as sole provider) and DroneGun MKIII™ (DroneShield one of two parties evaluated) for law enforcement of a major Asian country

⁵ Necessarily, not all, and there can be no assurance that any, of the Company's sales opportunities will result in sales.

3	Europe	\$4mil - \$5mil	June 2020 quarter	The army of a major European country. DroneShield one of the two parties being evaluated
4	Europe	\$5mil - \$10mil	March - June 2020 quarter	Sales expected to flow from an executed agreement with a major European integrator to sell to their customers
5	Middle East	\$5mil - \$10mil	6-9 months	Sales expected to flow from an executed agreement with a major Middle Eastern integrator to sell to their customers
6	Middle East	\$3mil - \$4mil	3-6 months	DroneShield awarded preferred bidder status with Armed Forces of the country, finalising contract
7	Australia	\$1m	March 2020	Australian Government agency
8	Europe	\$500k	March 2020 quarter	A contract for trial quantity of RfPatrol™ and DroneGun MKIII™ devices with Special Forces of that country

The above pipeline excludes smaller (sub A\$500,000) items and leads that are less probable at this stage or have an expected six month or longer timeframe to cashflow. There are numerous items of that nature, including highly probable near-term smaller purchase orders. DroneShield has dozens of such opportunities in its pipeline across countries and customer segments, and new opportunities are being added weekly as the customer counterdrone requirements continue to escalate.

Revenue Model and Recurring Cashflows

Importantly, both fixed site (DroneSentinel™) and body-worn (RfPatrol™) drone detection products have a recurring revenue element in that the Company charges its customers for updates to the drone libraries of the products. For example, the recently announced RfPatrol™ sale to the Australian department of Defence includes such subscription revenues. Over time, DroneShield expects to build a robust recurring revenue line as more products requiring library updates are sold.

Additionally, DroneShield has commenced offering leases of its product range to its in-country partners and end customers (where possession and use of a particular product is lawful for that customer according to local laws). The lease periods vary from weekly, to multi-year. Leasing may be suitable for event-based requirements, product evaluations without a commitment to purchase, or for customers who have a preference to lease vs outright purchase.

The Company does not believe that leasing would cannibalise its sales, as leasing would appeal to a different set of customers and utilise different deployment opportunities. Further, the Company believes that leasing is in fact complementary to its sales efforts as it will promote customer awareness of DroneShield's products and their applications.

Recognition

During the quarter and subsequently, DroneShield (directly or with its partners) participated in a number of high profile events focusing on various customer market segments, including military and airports, such as:

- PACIFIC 2019 - Sydney
- GITEX - Dubai
- AUSA - Washington DC
- Inter Airport Europe - Munich, Germany
- Australian Airports Conference - Gold Coast
- Milipol - Paris
- UK Security Expo – London

At PACIFIC 2019, which was the largest defence exhibition in Australia in 2019, DroneShield was nominated for and won the National Civil Innovation Award.



Image: DroneShield CEO Oleg Vornik with the Australian Minister for Defence Industry Hon Melissa Price, at the PACIFIC 2019 event where DroneShield was the recipient of the National Civil Innovation Award

During the quarter, DroneShield also won the NSW Premier's NSW Export Award in the Defence Category.



Image: DroneShield's CTO Angus Bean accepting the NSW Premier Export award

DroneShield also won awards with AIDN (Australian Industry and Defence Network) and Defence Connect.



Image: DroneShield team with AIDN awards

Product Development

During the quarter, DroneShield released a breakthrough new vehicle and fixed site based product, DroneSentry-X™.

Lightweight at approximately 10kg, compact size and easily mountable on most vehicles, the product is expected to be of significant interest to a range of DroneShield's customer base globally, across military, law enforcement, security and VIP markets. The product is suitable for both vehicle/convoy and fixed site installations. The product was developed in response to substantial customer interest.



Image: DroneShield's DroneSentry-X™

The product is available for purchase now to qualified customers, where lawful⁶, for delivery in mid 2020.

The Company is observing demand for on-vehicle counterdrone protection. In addition to catering for that segment, DroneSentry-X™ provides a more affordable detect-and-defeat solution for price-sensitive customers as an alternative to purchasing the full-functionality DroneSentry™ product.

Further, during the quarter DroneShield announced its entry into the maritime market with two of its counterdrone products.

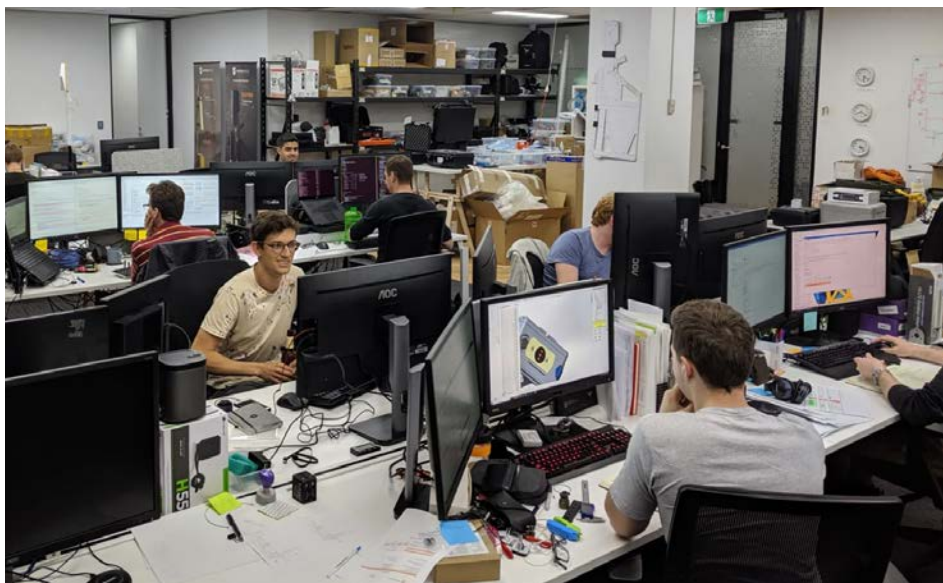


Image: DroneShield's Sydney office

Board Update

As the Company has matured, fund-raising and corporate finance expertise has become less important to the Board's collective skill set than experience in scaling up a complex global business. Fittingly, the Company has chosen to supplement its Board expertise in this area with an appointment of a new director. Consequently, in 16th January 2020, DroneShield announced that Robert Clisdell resigned from the Board of Directors and Jethro Marks joined the Board.

Mr. Clisdell, who was appointed to the Board in January 2017, has an increasing number of commitments outside of the Company, including directorships of less mature companies, and stepped down to free up his capacity for these. His contribution to the Company's capital formation activities has been valuable, and he will remain available to the Company as an advisor on an as needed basis.

Mr. Jethro Marks, the incoming director, based in Sydney, Australia, brings to the Board extensive commercial experience in successfully scaling a multinational business. Mr. Marks co-founded the Mercury Retail Group, an eCommerce retail, services, logistics and outsourcing business, in 2003, and has held the role of its CEO since then. Over 17 years, Mr. Marks has led, and continuously grown, the business at the forefront of digital commerce, marketing and international logistics, while competing with the largest retailers globally.



Image: Jethro Marks

¹ DroneSentry-X™ has not been authorized as required by the federal communications commission ("FCC"). This device is 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 and its agencies, until such authorization is obtained. The use of DroneSentry-X™ in the United States by other persons or entities, including state or local government agencies, is prohibited by federal law. Laws limiting the availability of DroneSentry-X™ to certain types of users may apply in other jurisdictions, and any sales will be conducted only in compliance with the applicable laws. Jammer affects only frequencies at ISM bands and GPS/Glonass (optionally). Emergency broadcasts, cellphone communication and other dedicated channels will not be affected.

Mercury Retail Group's global supply chain and award-winning logistics capability has extended to most consumer goods categories in multiple countries, and that company carries 32 million products today. This capability extends to provisioning international logistics support to multinational brands and technology companies.

Mr. Marks has previously held a Non-Executive Directorship at the NORA Network, Australia's leading digital retailing association, and currently holds a Non-Executive Directorship of a biotech company. He graduated from the University of Auckland, with a Bachelor of Commerce (Honours).

Press Coverage

DroneShield continued to be reported as the leading edge of the counterdrone industry in media reports. Coverage of DroneShield products and partnership include the following:

- The Security Industry is Ripe for Disruption & Drones Might be what does it⁷
- Drones Sighted Near Queensland Airports⁸
- Vehicle-Mounted DroneSentry-X Released⁹
- DroneSentry-X Released by DroneShield¹⁰
- Roof-Mounted DroneSentry-X lets regular cars take down Suspect Drones¹¹
- DroneShield receives first order from Australian Defence Force¹²
- DroneSentinel certified by CPNI¹³
- DroneShield systems protect Southeast Asian Games¹⁴
- BT launches service to tackle drone threat to infrastructure¹⁵



Image: Australian Aviation Magazine article



⁷ <https://www.sdmmag.com/articles/97285-the-security-industry-is-ripe-for-disruption-drones-might-be-what-does-it>

⁸ https://m.facebook.com/watch/?v=1388592914651405&_rdr

⁹ <https://www.shephardmedia.com/news/uv-online/vehicle-mounted-drone-sentry-x-released/>

¹⁰ <https://www.suasnews.com/2019/11/drone-sentry-x/>

¹¹ <https://newatlas.com/drones/roof-mounted-drone-sentry-x/>

¹² <https://themarketherald.com.au/drone-shield-receives-first-order-from-australian-defence-force-2019-11/>

¹³ <https://www.shephardmedia.com/news/uv-online/drone-sentinel-certified-cpni/>

¹⁴ <https://www.shephardmedia.com/news/uv-online/drone-shield-systems-protect-southeast-asian-games/>

¹⁵ <https://www.army-technology.com/features/bt-launches-service-to-tackle-drone-threat-to-infrastructure/>

DroneShield also continues to position itself as a thought leader in the counterdrone space. Listen to a *Defence Connect* (a major Australian defence publication) podcast with DroneShield's CEO Oleg Vornik here:

<https://www.defenceconnect.com.au/key-enablers/5435-podcast-deftech-and-the-counter-drone-industry-oleg-vornik-droneshield>

Environment

- In addition to the September 2019 Houthi rebel attacks on a key oil facility in the Kingdom of Saudi Arabia, there was a major escalation in early January with the US killing of Iranian General Qassem Soleimani and the subsequent downing of a Ukrainian airliner in Iran. Iran has a track record of conducting warfare through its proxies in the region, including extensive use of weaponised off the shelf drones of the types that DroneShield's products protect against. The escalated security situation is positively correlated to demand for the Company's products.



Image: The wreckage of an airstrike that killed Iranian general Qassem Soleimani in Baghdad on January 3, 2020

- Incidents involving drones continued into the end of the year as their accessibility and flight range continue to be developed. Areas of conflict have seen the regular use of drones to conduct remote surveillance, coordinate large-scale attacks and deliver payloads directly to the target. Commercial venues and restricted airspace have also seen consistent breaches as both negligent and nefarious pilots violate these facilities. Close calls and minor collisions with aircraft have exposed the vulnerabilities of airports to potentially deadly incidents involving small to medium sized drones.
- On 30 November 2019, during the Southeast Asian Games opening ceremony, four drones appeared in the flight path of the Philippine's Presidential helicopter. The drones were disabled by DroneShield counterdrone equipment, which was deployed at the Games to provide counter UAS protection.
- Nefarious pilots put commercial and public individuals at risk, intruding in restricted airspace and conducting illegal activities using small consumer drones.
 - Criminal gangs utilised drones to drop swine fever infected items into pig farms. Farm owners attempted to disable drones using unknown counterdrone equipment but were forced to surrender this equipment to authorities as they were not permitted to use the devices.
 - More than 2,000 passengers were affected by a drone which intruded on Taiwan international airport. Police were unable to identify or locate the drone or pilot.
 - A drone pilot was arrested after his drone fell inside the Hong Kong army barracks.
 - Investigations commenced after a drone was spotted flying over the Newcastle 500 racetrack, at the same time Air Force Jets were performing low altitude manoeuvres for the event.
- Criminals continued to exploit drones to circumvent prison security measures, delivering illegal contraband to inmates.

- Ex-convicts attempted to smuggle phones into a Russian prison using a commonly available DJI Phantom, modified to include a drop mechanism.
- A drone was used to smuggle illicit contraband into a Queensland prison, causing a full prison lockdown.
- Footage emerged online of a drone dropping contraband into a Dublin prison.
- Drones continued to be used by terrorists intent on causing harm in international conflicts. Reports showed groups continuing the development of long range, fast flying UAV's utilising off the shelf components. Incidents have proven the long ranges that terrorists are now capable of flying when delivering payloads to targets.
 - A custom-made drone was recovered in Syria, with off the shelf components consistent with other drones build by the Islamist terrorist organisation HTS.
 - A UAV flown by the Houthi-movement rebels was brought down in Yemen. Images show the inside of the device potentially carrying explosives.
 - A mid-sized drone developed in Turkey capable of carrying an automatic machine gun and 200 rounds of ammunition was released. The drone weighs 25kg and is configured in a quadcopter formation with dual propeller blades.
- A number of near misses and collisions between drones and commercial aircraft occurred during the quarter, with the risk of a major incident appearing imminent given the proximity in which drones are regularly flying to aircraft.
 - An LA TV helicopter sustained significant damage to the rotor and wing after suffering a drone collision at 1,100ft AGL. The aircraft was able to land safely however the crew were placed in significant danger during the incident.
 - An unidentified drone flew dangerously close to a luxury jet flying from France to England. The drone came within 10ft of the aircraft as it was attempting to land at London's Luton airport.
 - A drone pilot was fined \$20,000 after his DJI drone landed next to an active runway at McCarran International Airport in Las Vegas.
- Numerous large drones with blinking lights and wingspans of up to 6 feet have been reported across western Nebraska and eastern Colorado, with numerous sightings between sunset to about 10pm across a number of days.



Image: The LA News Helicopter that was struck by a drone at 1,100 ft AGL. The closeup image shows puncture damage to the wing caused by the collision.

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

Capital Structure

As of the date of this report, there are 252,462,135 ordinary shares on issue. No other class of securities (other than the options referenced below) exist.

Below table summarises current outstanding options, issued to the Board, management and staff (and in the case of the class O options, issued to brokers as part of previous capital raisings).

Class	Amount Outstanding	Strike Price	Expiry
C	621,000	30c	29 Mar 2020
E	250,000	30c	29 Mar 2021
F	100,000	30c	22 Jun 2021
G	250,000	30c	29 Mar 2022
J	250,000	50c	22 Jun 2022
K	700,000	50c	22 Jun 2022
M	50,000	20c	22 Jun 2022
N	175,000	20c	22 Jun 2023
O	1,446,066	22c	21 Feb 2021
P	1,050,000	40c	5 Aug 2022
Q	5,200,000	65c	30 Jun 2023
R	10,000,000	40c	5 Aug 2022
Zepos - Tranche 1	21,000,000	Nil (exercise can take place only provided that the Company achieves \$10m in revenue in a 12 month period, or a takeover or a similar transaction occurs)	15 Aug 2021
Zepos - Tranche 1	2,459,384		17 Oct 2021
Zepos - Tranche 2	5,200,000	Nil (exercise can take place only provided that the Company achieves \$20m in revenue in a 12 month period (not counting any revenue applied to Tranche 1 Zepos vesting, or a takeover or a similar transaction occurs))	30 Nov 2022
Total	48,751,450		

Further Information

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About DroneShield Limited

Based in Sydney (Australia), Virginia and Washington DC (USA) and London (UK), 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 December 2019

Consolidated statement of cash flows	Current quarter \$A	Year to date \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	752,399	3,162,838
1.2 Payments for		
(a) research and development ¹⁶	(216,418)	(1,019,938)
(b) product manufacturing and operating costs	(750,807)	(1,466,064)
(c) advertising and marketing	(332,751)	(946,796)
(d) leased assets ¹⁷	85,680	-
(e) staff costs	(1,093,657)	(3,341,972)
(f) administration and corporate costs	(336,503)	(1,849,280)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	11,765	35,702
1.5 Interest and other costs of finance paid ¹⁷	(47,457)	(68,120)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	4,000	582,224
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,923,749)	(4,911,406)

¹⁶ A majority of this amount is expected to be eligible for the 43.5% R&D Tax Incentive Grant expected to be received in the first quarter of the calendar 2020 year.

¹⁷ The Company adopted AASB 16 Leases from 1 January 2019. As required by this accounting standard, an ongoing assessment was performed resulting in recognition of right-of-use assets and lease liabilities for the lease of offices in Sydney and Virginia. These leases were previously recognised in operating activities. The total actual annual lease cost for these two offices is A\$209,733.

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(298,999)	(1,044,592)
(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	(298,999)	(1,044,592)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	10,849,696
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	114,292	417,159
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(719,230)
3.5 Proceeds from borrowings	-	500,000
3.6 Repayment of borrowings	-	(500,000)
3.7 Transaction costs related to loans and borrowings	-	(155,580)
3.8 Dividends paid	-	-
3.9 Other (provide details if material) ¹⁸	(146,965)	(146,965)
3.10 Net cash from / (used in) financing activities	(32,673)	10,245,080

¹⁸ The Company adopted AASB 16 Leases from 1 January 2019. As required by this accounting standard, an ongoing assessment was performed resulting in recognition of right-of-use assets and lease liabilities for the lease of offices in Sydney and Virginia. These leases were previously recognised in operating activities. The total actual annual lease cost for these two offices is A\$209,733.

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	7,763,298	1,229,499
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,923,749)	(4,911,406)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(298,999)	(1,044,592)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(32,673)	10,245,080
4.5	Effect of movement in exchange rates on cash held	(22,877)	(33,581)
4.6	Cash and cash equivalents at end of quarter	5,485,000	5,485,000

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	1,906,555	4,232,994
5.2	Call deposits	3,578,445	3,530,304
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)	5,485,000	7,763,298

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

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A**

118,366

-

Remuneration payments to CEO and Director fees to the Board.

7. Payments to related entities of the entity and their associates

- 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

**Current quarter
\$A**

12,500

-

September consulting fees paid to Mounthaven Consulting LLC, an affiliate of substantial shareholder Long Hill Capital LLC, in October. For periods following 1 October 2019, no further fees were payable.

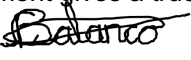
8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities	nil	nil
8.2 Credit standby arrangements	nil	nil
8.3 Other (please specify)	nil	nil
8.4 Include below a description 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.		

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	260,000
9.2 Product manufacturing and operating costs	365,000
9.3 Advertising and marketing	180,000
9.4 Leased assets	40,000
9.5 Staff costs	1,105,000
9.6 Administration and corporate costs	260,000
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	2,210,000

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: 
Company secretary

Date: 21 January 2020

Print name: Carla Balanco

Notes

- 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.