



# DRONESHIELD

## Quarterly Report

For the period ending  
31 March 2020



*Image: DroneShield RfZero™ deployed  
at a US site*

**DroneShield Limited (ASX:DRO)**

ASX Release

ABN 26 608 915 859



**DroneShield Ltd (ASX:DRO)** ("DroneShield" or the "Company") is pleased to provide the following update on its activities during the three-month period ended 31 March 2020 and its Appendix 4C quarterly cash flow report for the same period.

### **Financial Performance, COVID-19 Crisis and Outlook**

Short-term, the Company has not been immune from the global public health crisis brought on by the coronavirus pandemic and the resulting economic crisis. These dampened the Company's customer cash receipts during the quarter, to \$424,000, substantially below expectations. This stems from a combination of short-term delays in logistics (and consequently, payments for products shipped), installation approvals and payments, and postponements of customer travel.

The crisis did *not*, however, result in any of the customer orders for DroneShield's products being cancelled. Current orders placed by the customers, for which the Company expects payment either on delivery or, shortly, having recently delivered the products, totals \$4.2 million.

The crisis did not result in any potential customers declining to purchase the Company's products either, and all of the Company's pending sales processes that were not in fact successfully concluded during the quarter remain on foot (such high conviction pipeline is estimated at over \$80 million<sup>1</sup>, as further described in *High Conviction Pipeline* below). By way of example, as announced to the market on 9 March 2020, notwithstanding the crisis, DroneShield converted one of its sales opportunities into a \$460,000 initial order from a new customer - a major U.S. Governmental agency that has some of the most demanding and complex requirements of any Governmental agency worldwide. Similarly, on 30 March 2020, following the customer's request, DroneShield shipped a large batch of equipment to a Middle Eastern Ministry of Defence whose country is the subject of ongoing and acute security threats. The approximately \$2.9 million payment is expected following receipt of the shipment by the customer.



*Image: RfZero™ on a Polaris MRZR vehicle*

<sup>1</sup> Necessarily, not all, and there can be no assurance that any, of the Company's sales opportunities will result in sales

The Company is fortunate in that a majority of its customers are governmental agencies and, as a result, the credit risk faced by the Company in the current environment is small compared to that faced by businesses whose customers are private enterprises and consumers.

The Company continues to manufacture products and undertake its research and development, and sales activities.

As a macro matter, the crisis has increased international tensions and is expected to result in an increase in security and national defence budgets. It has also placed substantial emphasis on Australia, the United States and countries allied with Australia and the United States, seeking to minimise their dependence on supply chain and manufacturing sources that reside outside of the allied countries. This is expected to increase the demand for DroneShield's products from the Western countries, and their regional allies, who collectively represent majority of the world's defence and security budgets. Consistent with this trend, during the quarter, the Company received payment for a third order placed by the Australian Department of Defence for DroneShield's products over the recent months.

Further, the Australian Government is undertaking substantial spend in the current market state, to promote safety and security, as well as to foster local business and manufacturing capabilities, particularly in the national defence industrial base. DroneShield expects to be eligible for such non-dilutive funding programs. By way of example, in April, the Company received \$100,000 from the Export Market Development Grant (following that scheme having received full governmental funding due to the current environment). The Company also expects to receive in May approximately \$880,000 in an R&D Tax Incentive grant (and subsequently to the end of 2020, a similarly sized R&D Tax Incentive grant in relation to its 2020 expenditure).

Just like the crisis has had unintended consequences in a number of industries, it has produced unexpected positive consequences for DroneShield. By way of example, the drop in the Australian dollar has made the value of the currently outstanding orders, expressed in US dollars, more significant. More importantly, it has made DroneShield, whose costs are largely Australian dollar denominated, much more cost and price competitive internationally.



*Image: DroneShield's DroneSentinel™ trailer-mounted system during a US deployment*



Collectively, the Company's Board, which hails from a range of complementary industries, including the capital markets, logistics, marketing and professional public company management, has had substantial experience with economic cycles and previous cyclical crises. Consequently, at the end of the quarter, the Board took the decision to substantially reduce the Company's costs, so as to enable the Company to continue to be effective and grow during a prolonged macroeconomic downturn, if the downturn persists. As a result, the Company has now reduced its staffing levels, focusing on reductions in longer-range focused engineering, as well as on minimising the duplication of functions in Australia, the UK and the US.

Consequently, while the March quarter's net cash outflow before financing is approximately \$2.03 million (a reduction from the \$2.24 million net cash outflow before financing in the December quarter), going forward (and following the recently undertaken cost reductions), with effect from the third quarter, the Company expects its steady-state quarterly *gross* cost base to be approximately \$1.2 million, before accounting for any revenues (and grant funding), and any additional costs in relation to products manufactured for future orders (after the Company utilises its current product inventory). Due to the timing of the cost reductions and the Company's existing commercial obligations, the Company expects the second quarter's gross cash outflow (on the same pre-revenue/costs of manufacture and pre-grant basis) to be approximately \$2 million, before achieving the cost basis of \$1.2 million referenced above, with majority of the \$800,000 difference relating to inventory and cost of material payments due this quarter.

Therefore, DroneShield is confident that its existing cash balance (which was approximately \$3.57 million as at 31 March 2020), together with the already secured non-dilutive funding, and excluding any customer cash receipts (both in relation to orders already placed by customers and any future orders), is sufficient to meet its capital requirements until the end of the 2020 calendar year. For clarity, the Company expects to receive the payments in relation to the customer orders already placed, and a meaningful increase in its revenues as the initial disruptions caused by the crisis pass, and the Company converts substantial pipeline into new orders. Consequently, the Company expects not to have additional capital requirements for a substantially longer period than through to the end of the 2020 calendar year (if ever). The Board does not wish to raise capital at the current, historically low, share price levels, and the Company has no plans to raise capital.

As summarised in the above discussion, the Company does not believe that the crisis will have a material effect on the Company's long-term prospects.

## **Sales**

During the quarter, DroneShield continued to expand the range of its customers and its sales pipeline. The Company currently offers its products in over 100 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.



*Image: DroneShield's DroneGun Tactical™ units prior to shipment to a Middle Eastern Ministry of Defence customer*

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.

The following near-term themes continue to be main sales drivers for the Company:

### ***The Middle East***

At the end of the quarter, DroneShield shipped the DroneGun™ units that remained to be dispatched under a prior Middle Eastern Ministry of Defence order, with a payment of approximately US\$1.83 million (\$2.9 million at current exchange rates) due from the customer this quarter (in addition to the US\$880,000 previously received by DroneShield under this order). The increase in the overall Australian dollar amount of the order relative to the \$3.2 million total, originally announced on 14 June 2018, reflects the weakening of the AUD (the contract is in USD).

The Company is actively involved in a number of Middle Eastern sales processes. While the regional processes can be drawn out and less streamlined compared to the West, the size of the opportunities is significant, as evidenced by the \$70 million to \$85 million<sup>2</sup> potential order that the Company is working on<sup>3</sup>. The Company continues to have regular discussions with the customer, as part of the recent DroneGun™ order delivery to them and has a very positive relationship with the customer. The shipment of the product referenced above is important, as it satisfies the customer's requirements in relation to the order previously placed by them.

The Company has several active demonstration requests from substantial end-users in the region (as well as elsewhere globally), which will commence as soon as the current travel ban is lifted.

### ***The United States Department of Defense***

The Company had a busy quarter and continues to be active in the United States. Despite COVID-19 customer personnel restrictions and conference/event postponements, the Government offices remain active and continue to work on awarding contracts.

The fixed site systems have continued deployments in a variety of configurations. The below image shows a trailer-mounted DroneShield's DroneSentinel™, with a solar power source, at a recent successful demo deployment for a number of US Government agencies.



*Image: DroneShield's RfZero™ counter-UAS system mounted on a Polaris MZRZ vehicle*

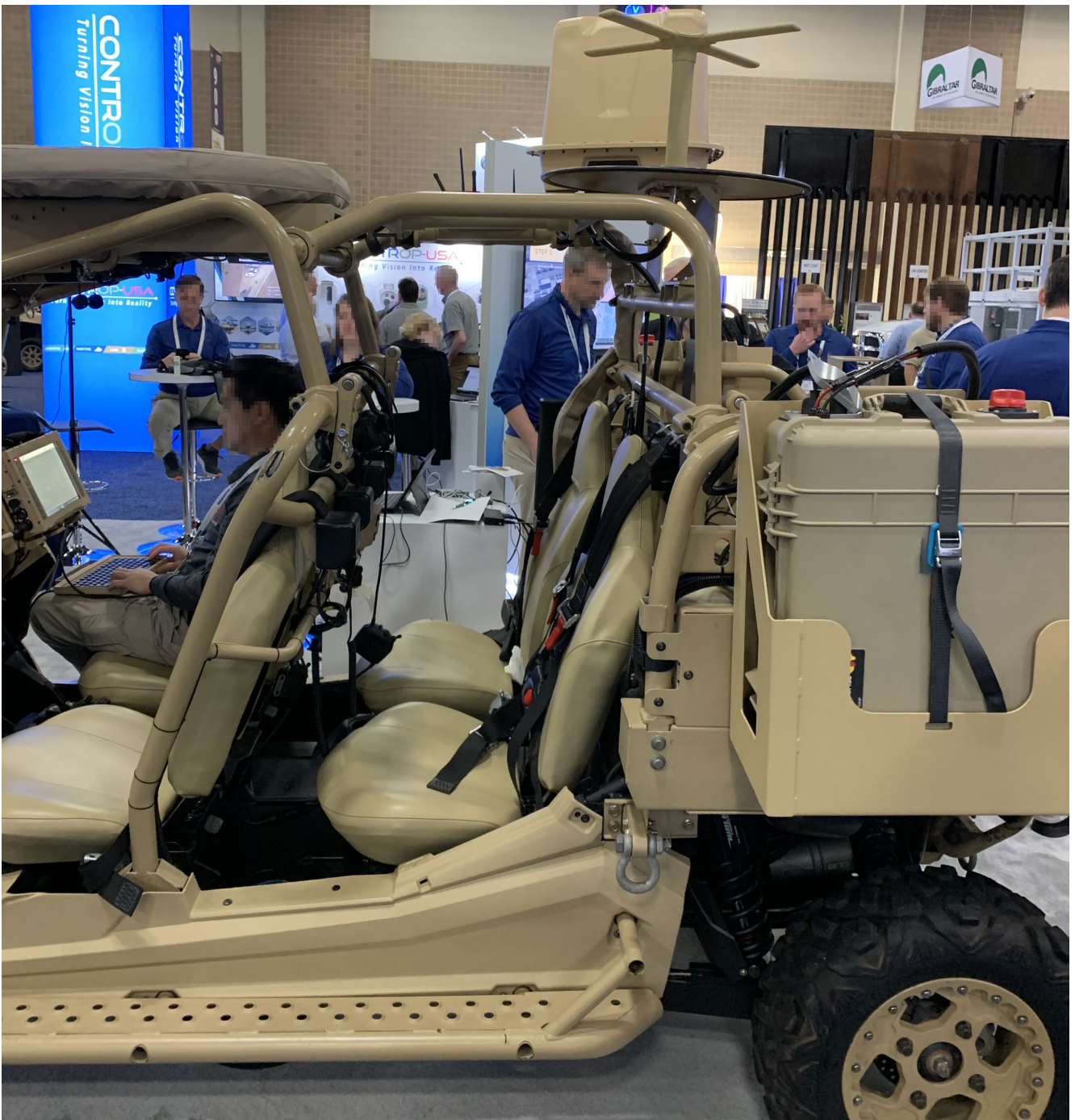
<sup>2</sup> Corresponding to US\$45-55 million. Movement from earlier referenced \$60-70 million due to AUD USD exchange rate movement

<sup>3</sup> Originally announced on 10 July 2018. Necessarily, 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



On 9 March 2020, DroneShield announced that it received an approximately \$460,000 order from a major agency of the United States Government. The delivery of, and payment for, the order is expected to occur in the current quarter. This order is important as there is no more sophisticated customer amongst the national security apparatus globally. The fact that the customer recognised DroneShield's capability by placing the order is an important milestone in the Company's sales activities and is expected to be a substantial contributor towards the acceptance of DroneShield's products both by the agencies of the United States Government and internationally.

The recently released RfZero™ has been Polaris MRZR vehicle-mounted, for mobile deployments with US Government agencies. An on-the-move counterdrone capability is a significant requirement by the US and other militaries, and this product is expected to fit with those requirements.



*Image: DroneShield RfZero™ deployed on a Polaris MRZR vehicle at Border Security Expo in San Antonio*



*Image: DroneShield's DroneSentinel™ testing at the Company's Virginia test facility*

In addition to pursuing various opportunities with its US integrator and distributor partners, and directly with end-users, DroneShield has applied for a range of R&D and other program development grants, including specific events (such as xTechSearch) and Broad Agency Announcements (BAAs).

Events held during the quarter included AFCEA West in San Diego, Border Security Expo (San Antonio) and xTechSearch (virtual). 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. A number of annual industry events such as SOFIC are continuing in the current quarter on a virtual basis.



*Image: DroneShield US team presentation at xTechSearch program*



### ***Australian Department of Defence and other Government Agencies***

Following several orders from the Australian Department of Defence (DoD) in the recent months, most recently for approximately \$300,000 received during the quarter (to be delivered and paid for during the current quarter), DroneShield continues to actively engage with the DoD and other Australian Government agencies, on further near term opportunities.

DroneShield's ability to continue securing Australian DoD contracts is supported by:

- the Australian Government's drive to grow its domestic defence industry,
- DroneShield's status as the only native Australian counterdrone manufacturer,
- 100% Australian IP, and
- a local manufacturing operation in Western Sydney, NSW.

During the quarter, the Australian Defence Sales Catalogue 2020 was formally released, with DroneShield selected to be included into the publication. The Catalogue is marketed by the Australian Government Department of Defence to approved foreign purchasers, offering defence solutions from endorsed Australian manufacturers, such as DroneShield.

Additionally, the Company has recently received an order for RfPatrol™ from a New Zealand Government agency. The device will be used in a multi-agency evaluation process, with potential for a wide rollout following the initial testing.

The Company has also become a member of Advanced Manufacturing Growth Centre, an Australian industry body promoting Australian manufacturers. Further, DroneShield is continuing its R&D joint venture with the University of Technology Sydney (under the Defence Industry Network scheme), previously announced on 22 July 2019.

DroneShield also continues to be a part of Team Defence Australia, having exhibited at the Singapore Air Show and the DefExpo in India during the quarter, as part of the Australian delegation.



*Image: DroneShield at the Singapore Airshow with Team Defence Australia*

In addition to pursuing sales opportunities, DroneShield expects to submit applications for meaningful grant amounts to the Australian Defence Innovation Hub.





*Image: DroneShield demo to a Western law enforcement customer during the quarter*

### ***The United Kingdom – Partnership with BT***

DroneShield continues its partnership with BT on its counterdrone pipeline. Despite the COVID-19 situation, a number of UK end users continue to operate, including the UK Ministry of Defence, which is actively evaluating DroneShield's products at the moment.



*Image: BT's display of DroneShield products at the Policing and Security Event 2020 at Farnborough*

### ***Airports***

Airports are continuing to see freight cargo activity, even as passenger flights are curtailed, and proactively manage their security processes, including counterdrone security. As the current restrictions begin to lift, a number of tender processes that DroneShield is involved in, are expected to re-start. The Company has recently started marketing its new RfOne detection sensors with an up to 8km range, an industry-leading capability that large installations such as airports are expected to take advantage of.

DroneShield continues to utilise its membership of ACI (Airports Council International) Europe and the Australian Airports Association. ACI Europe represents over 500 airports in 45 European countries, including virtually every major European airport.

### **Contracted Purchase Orders**

The summary of the Company's orders that have been placed by customers and are currently being fulfilled, and their status is below.

Deal	Region	PO Value (A\$)	Target timing of initial payment	Comments
1	Middle Eastern MoD	\$2.9 million	2Q20	DroneShield recently completed delivery of the contract, with the payment expected this quarter
2	US Govt Agency	\$460,000	2Q20	Delivery expected in May, payment in June
3	Middle Eastern Commercial Customer	\$430,000	2Q20	Deposit received. Delivery and payment anticipated prior to end of this quarter
4	Europe	\$230,000	2Q20	A contract for trial quantity of DroneGun MKIII™ devices with Special Forces of that country, received during the quarter. Payment expected in May
5	Miscellaneous: UK, Europe and NZ	\$200,000	2Q20	Several other customer orders received through 1Q20 and April, with payments expected in May
	<b>Total</b>	<b>\$4.2 million</b>		

### **Near-Term High-Conviction Pipeline**

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

Deal	Region	Total expected contract value, if awarded (A\$) <sup>4</sup>	Target timing of initial payment (if awarded)	Comments
1	Middle East	\$70mil - \$85m <sup>5</sup>	2Q20	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	UK	\$5-10m	4Q20	Sales expected to flow from an executed agreement with a major European integrator to sell to their customers. Expected purchases delayed to 4Q due to COVID-19
3	Europe	\$4-5m	4Q20	The army of a major European country. Expected purchase delayed to 4Q due to COVID-19
4	Asia	\$1m	2Q20	RfPatrol™ product (DroneShield as sole provider for law enforcement of a major Asian country)
5	Australia	\$1m	2Q20	Australian Government agency
6	US	\$1m	2Q20-4Q20	US DoD in partnership with a major integrator (contract value as attributable to the DroneShield), and other anticipated short-term US Government orders
	<b>Total</b>	<b>\$80m+</b>		

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.

AUD values have been updated on existing contracts due to movement in USD/AUD – all DroneShield pricing is in USD, increasing the value of proceeds with the recent strengthening of USD.

<sup>4</sup> Necessarily, not all, and there can be no assurance that any, of the Company's sales opportunities will result in sales.

<sup>5</sup> Corresponding to US\$45-55 million. Movement from earlier referenced \$60-70 million due to AUD USD exchange rate movement



## Recognition

In late March, DroneShield was included in Australia Financial Review's Fast Starters, as a result of a tenfold increase in its revenue, to approximately \$3.5 million in FY19, in the most recent 3 years<sup>6</sup>.



Image: Australian Financial Review feature DroneShield in the Fast Starters section

## Product Development

During the quarter, the DroneShield team continued to substantially enhance existing products and work towards new product launches. As the Company builds its hardware and software from the ground up, it enables a substantial degree of product performance and feature optimisation, while maximizing ruggedization and reducing the formfactor of the products, making them smaller and lighter.

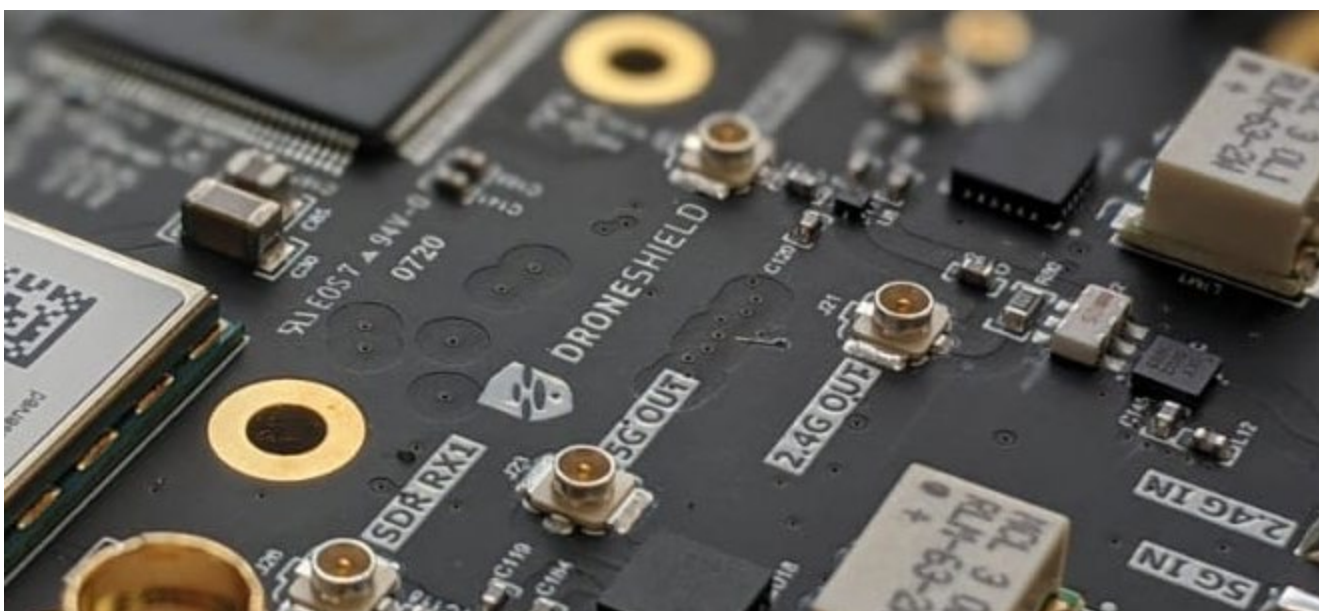


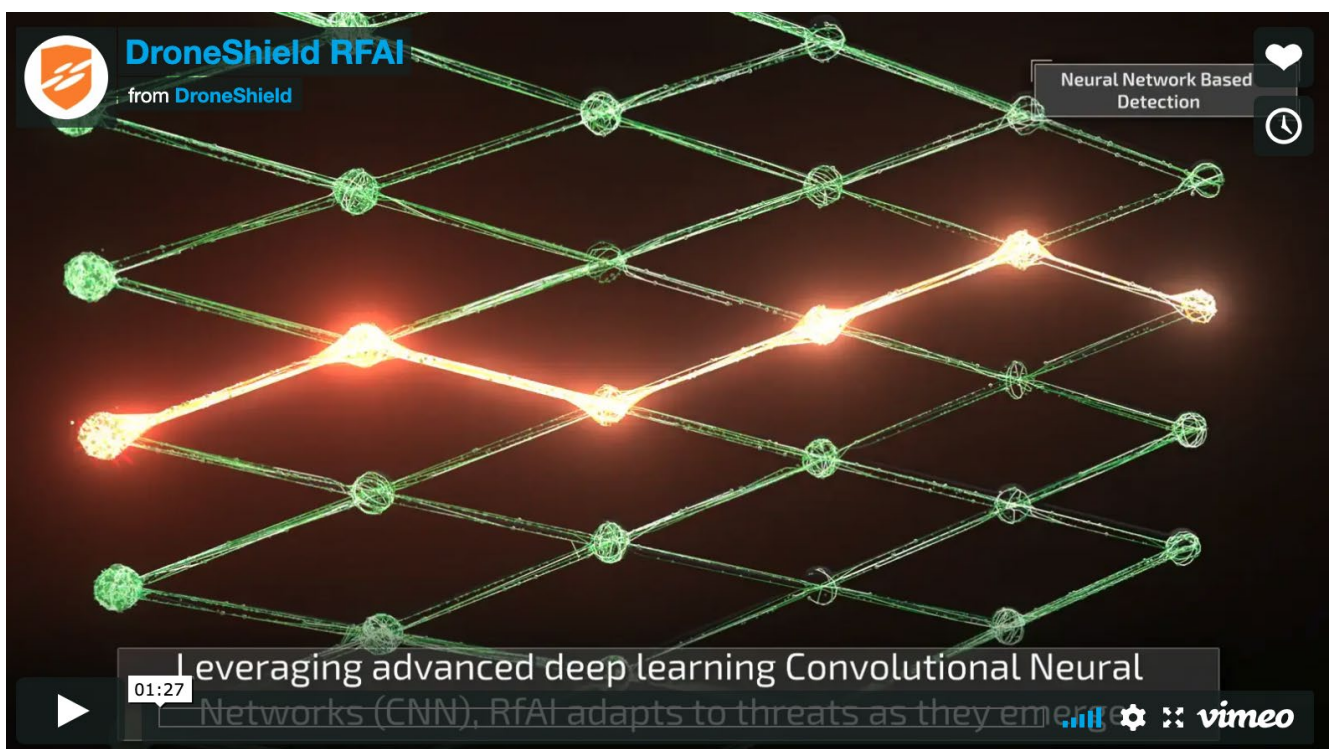
Image: DroneShield custom circuit boards

<sup>6</sup> <https://www.afr.com/work-and-careers/management/fast-100-and-fast-starters-winners-revealed-20200219-p54269>

### **Artificial Intelligence (AI)-based Drone Detection Engine**

In the recent months, DroneShield has established proof of concept, that it is currently implementing into its devices, of an AI-based engine for drone detection. This is a multi-phase program, ultimately enabling DroneShield devices to rapidly self-learn drone and other threats around them, providing an accurate threat picture to the end user, with options for rapid real-time response. The Company's AI engines have been designed to process multiple streams of signals, such as radio frequencies (RF) and optics.

The AI updates will enhance DroneShield products' current industry-leading detection capabilities and ensure effectiveness against emerging threats for years to come. As each stage of the Company's AI program is released to customers, DroneShield will provide its customers with seamless software-based upgrades, demonstrating DroneShield's commitment to future proof counterdrone solutions for its customers, ensuring they always have the most capable, up-to-date technologies and 24/7 protection from the emerging and the ever-evolving threat commercial and consumer drones can present.



*Video: DroneShield Artificial Intelligence engine*

### **DroneSentry-X™**

During the quarter, DroneShield continued development of its 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.

The product is available for purchase now to qualified customers, where lawful<sup>7</sup>, for delivery in mid-2020.

<sup>7</sup> 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.





*Image: DroneShield's DroneSentry-X™*

In addition to catering for the on-vehicle 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.

### **RfPatrol MKII™**

DroneShield has released the next generation version of its body-worn drone detection device, RfPatrol MKII™.

The original RfPatrol™ was released in May 2019, having proven to be a well-regarded product, with purchases by several high profile customers around the world.

The device is completely passive (non-emitting), substantially broadening the range of customers to whom the product is lawfully available, and also appealing to use cases where the device cannot be detectable to the enemy forces due to having no emissions.

The next generation of the product is approximately 40% smaller in size, reduced weight to 800g (incl battery), further ruggedisation, as well as a range of further enhancements requested by the end users following last 12 months of in-field deployments.



*Image: RfPatrol MKII™*

The first shipment of RfPatrol MKII™ will be made to a US Government customer in May.

The device also enables the users to determine the direction of the incoming threat, through the Directional Antenna Unit (DAU™) optional accessory.

### ***RfPatrol Directional Antenna Unit (DAU)™***

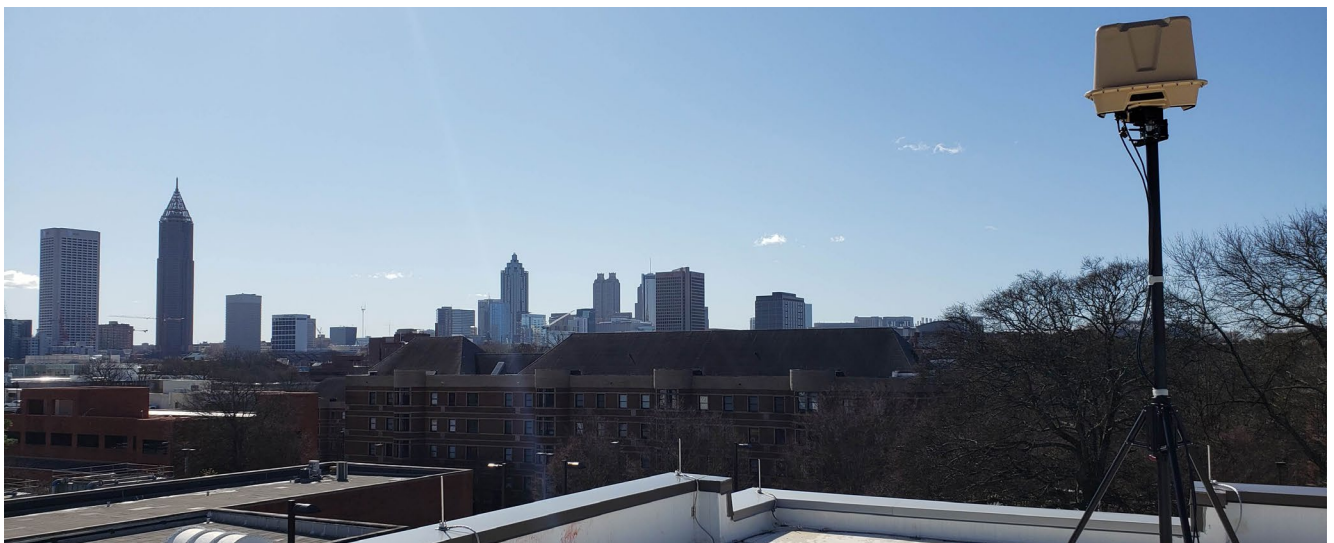
DroneShield has launched, and received the first order for, a product enabling directional capability for RfPatrol™. RfPatrol DAU™ is an optional accessory to RfPatrol which enables the user to determine the direction of the incoming drone. The accessory is available for sale now, with the initial shipment to a law enforcement agency of a major Asian country later this month. The device also comes in an alternate non-gun shape form.



*Image: Dronesield's RfPatrol DAU™*

### ***RfZero™***

During the quarter, DroneShield commenced a rollout program of deploying RfZero™ units to help customers determine the scale of thier drone threat, following which the customer is able to justify the budget to acquire a full scale DroneShield system. RfZero™ is an easy to deploy plug-and-play product with access to the full suite of DroneShieldComplete software features, including real time alerts and an extensive reporting functionality.



*Image: RfZero™ deployed at a customer site*



A big reason that users are able to leverage RfZero™ for so many different use cases (vehicle, trial site deployments etc), is due to the device's adaptability. RfZero™ carries a lightweight, yet rugged IP67 specification, designed to withstand harsh outdoor conditions and the unique challenges dictated by rapid deployable, vehicle, and even maritime operations. With AI next generation detection (refer to section below), RfZero™ can also intelligently adapt to dynamic RF environments and emerging UAV threats.

RfZero™ can operate fully standalone, without any existing infrastructure, or seamlessly plug into existing networks with only two connections; one for power and the other for network connectivity. Its low power requirements allow for RfZero™ to operate on-the-edge, with a 12 VDC power source or even batteries.

Interoperability is always a critical component for system adaptability. With a simplified, cross-platform user interface and full API, RfZero™ can go wherever needed and plug into existing security operations and situational awareness platforms to provide real-time alerts of unwanted drone activity.






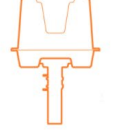


RfZero™ covers all commercial drone frequency bands simultaneously in a single, small form-factor. There is no need for additional equipment or systems to cover additional bands.

RfZero™ is cost-effective. Far exceeding the 1 to 2 km detection range of other portable C-UAS systems, providing up to 5 km of effective coverage, reducing the deployment density required and significantly reducing the initial and any operational costs.

Most importantly, RfZero™ is drone agnostic and real-world ready. Many drone detection systems only cover a specific or small number of manufacturers, leaving the airspace with vulnerabilities and blind spots. RfZero™ detection addresses all commercial drone manufacturers and protocols, with an adaptable detection engine that addresses new threats as they emerge.

### Product segmentation

Further, during the quarter the Company streamlined marketing of its product families into 3 set groups, related to how the products are used – Body-worn, Vehicle and Stationary, reinforcing the breadth of Company's offering as one of its key strengths. This summary is set out below.

	BODY-WORN			VEHICLE/STATIONARY			STATIONARY	
	 DroneGun MKIII DroneGun Tactical	 RfPatrol	 DroneNode	 DroneSentry-X	 DroneCannon RW	 RfZero	 DroneSentinel	 DroneSentry
Detect/ID	•	4 km	•	2 km	•	5 km	8 km	8 km
Real Time Tracking	•	✓	•	✓	•	•	✓	✓
Defeat	2 km	•	1 km	1 km	•	•	•	2 km
UI & Reporting	•	✓	•	✓	•	✓	✓	✓

### Press Coverage

DroneShield continued to be reported as the leading edge of the counterdrone industry in the media. Coverage of DroneShield included the following:

- DroneShield Banks Defence Anti-Drone Cash<sup>8</sup>
- 'Deftech' and the counter-drone industry – Interview with Oleg Vornik, CEO DroneShield<sup>9</sup>
- DroneShield's C-UAS AI in US Army focus<sup>10</sup>
- U.S. Army selects 20 firms for xTechSearch 4.0 technology prize competition<sup>11</sup>
- DroneShield secures order from major US government agency<sup>12</sup>
- DroneShield Delivers Anti-Drone Measures to the Middle East<sup>13</sup>
- The CEO Mindset – Oleg Vornik<sup>14</sup>
- On the Road with RfZero<sup>15</sup>
- DroneShield introduces RfPatrol MKII UAS Detection System<sup>16</sup>

## Environment

As nefarious use of drones has become commonplace, the issue continues to escalate.

- Reported illegal activities using small consumer drones have recently included:
  - Two Indian men were arrested for their part in using consumer drones to smuggle drugs and weapons from Pakistan to India.
  - The FAA was forced to close the airspace around the crashed helicopter carrying Kobe Bryant after a significant number of drones attempted to capture images of the accident.
  - A Florida man faces a year in prison after flying a drone in airspace which had been restricted due to the Super Bowl.
  - Reports emerged that Japanese authorities had taken action against 115 people for offences relating to illegal drone use, a significant increase on the previous year.
- Reported contraband deliveries to prison inmates have included:
  - Two men were charged for using drones to smuggle drugs, 160 cell phones, blades and other contraband to inmates at a federal prison in New Jersey.
  - Police intercepted several packages of contraband dropped by drones into an Ottawa prison. The prison experienced two other cases in 2019, indicating an ongoing battle with drone-based smuggling.
- Airport near misses and collisions between drones and aircraft, and resulting airport shutdowns have included:
  - Frankfurt Airport, the busiest in Germany, was closed for two hours after a drone was sighted in nearby airspace. Several flights were cancelled, delayed or rerouted.
  - A drone sighting disrupted air traffic at Madrid International Airport, with all runways closed for over one hour.
  - A grounded drone was found very close to the runway of the Cayman Islands International Airport, prompting fears about undetected drones putting passengers and aircraft at risk.
  - Footage emerged of a military helicopter being forced to take evasive action after a consumer drone was flown in its direct path.
  - A helicopter preparing to fly a critically injured child to hospital was forced to halt operations after someone flew a consumer drone into its landing zone. The pilot was not identified.

On 30 March, Houthi rebels launched ballistic missile air attacks on Riyadh and other sites near the Yemen border. While the attacks were not with drones, they continued to underscore the importance of layered air defence, especially as Houthis have a track record of conducting drone attacks as well.

<sup>8</sup> <https://www.aumanufacturing.com.au/droneshield-banks-defence-ant-drone-cash>

<sup>9</sup> <https://www.defenceconnect.com.au/key-enablers/5435-podcast-deftech-and-the-counter-drone-industry-oleg-vornik-droneshield>

<sup>10</sup> <https://www.janes.com/article/93539/droneshield-s-c-uas-ai-in-us-army-focus>

<sup>11</sup> [https://www.armyrecognition.com/january\\_2020\\_global\\_defense\\_security\\_army\\_news\\_industry/u.s.\\_army\\_selects\\_20\\_firms\\_for\\_x\\_techsearch\\_4.0\\_technology\\_prize\\_competition.html](https://www.armyrecognition.com/january_2020_global_defense_security_army_news_industry/u.s._army_selects_20_firms_for_x_techsearch_4.0_technology_prize_competition.html)

<sup>12</sup> <https://www.businessnewsaus.com.au/articles/droneshield-secures-order-from-major-us-government-agency.html>

<sup>13</sup> <https://www.aumanufacturing.com.au/droneshield-delivers-anti-drone-measures-to-the-middle-east>

<sup>14</sup> <http://stockpal.asia/2020/04/the-ceo-mindset-oleg-vornik-droneshield/>

<sup>15</sup> [http://armscom.net/news/on\\_the\\_road\\_with\\_rfzero](http://armscom.net/news/on_the_road_with_rfzero)

<sup>16</sup> <https://www.janes.com/article/95758/droneshield-introduces-rfpatrol-mkii-uas-detection-system>



In April, U.S. Attorney General William Barr issued guidance to the Justice Department, effectively giving greater powers to the FBI, DEA, Bureau of Prisons and other Justice Department agencies to deal with drone threats. This, in turn, is expected to be positive for US sales of counterdrone equipment, as the Government customers gain more clarity on their ability to purchase and use the equipment.

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
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 2021
K	700,000	50c	22 Jun 2022
M	50,000	20c	22 Jun 2022
N	50,000	20c	22 Jun 2023
O	1,446,066	22c	21 Feb 2021
P	500,000	40c	5 Aug 2022
Q	5,700,000	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	5,700,000	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	48,455,450		

Authorised for release by the CEO, Oleg Vornik.

## Further Information

Oleg Vornik  
 CEO and Managing Director  
 Email: [oleg.vornik@droneshield.com](mailto:oleg.vornik@droneshield.com)  
 Tel: +61 2 9995 7280

## 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 March 2020

<b>Consolidated statement of cash flows</b>		<b>Current quarter A\$</b>	<b>Year to date A\$</b>
<b>1. Cash flows from operating activities</b>			
1.1 Receipts from customers		424,074	424,074
1.2 Payments for			
(a) research and development		(189,669)	(189,669)
(b) product manufacturing and operating costs		(413,245)	(413,245)
(c) advertising and marketing		(257,225)	(257,225)
(d) leased assets		-	-
(e) staff costs		(1,108,199)	(1,108,199)
(f) administration and corporate costs		(290,352)	(290,352)
1.3 Dividends received (see note 3)		-	-
1.4 Interest received		7,903	7,903
1.5 Interest and other costs of finance paid		(13,574)	(13,574)
1.6 Income taxes paid		-	-
1.7 Government grants and tax incentives		42,800	42,800
1.8 Other (provide details if material)		-	-
<b>1.9 Net cash from / (used in) operating activities</b>		<b>(1,797,487)</b>	<b>(1,797,487)</b>
<b>2. Cash flows from investing activities</b>			
2.1 Payments to acquire:			
(a) entities		-	-
(b) businesses		-	-
(c) property, plant and equipment		(233,403)	(233,403)



<b>Consolidated statement of cash flows</b>		<b>Current quarter A\$</b>	<b>Year to date A\$</b>
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(233,403)</b>	<b>(233,403)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
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)	125,545	125,545
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>125,545</b>	<b>125,545</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter A\$</b>	<b>Year to date A\$</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	5,485,000	5,485,000
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,797,487)	(1,797,487)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(233,403)	(233,403)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	125,545	125,545
4.5	Effect of movement in exchange rates on cash held	(13,215)	(13,215)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>3,566,440</b>	<b>3,566,440</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	1,132,631	1,906,555
5.2	Call deposits	2,433,809	3,578,445
5.3	Bank overdrafts		
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>3,566,440</b>	<b>5,485,000</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1 Payments to CEO and Non-Executive Directors of \$120,418, and payment of \$73,504 for shipping costs to the shipper Sort Hub Pty Ltd, of which the director Jethro Marks is a related party.	(193,922)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments



**7. Financing facilities**

*Note: the term "facility" includes all forms of financing arrangements available to the entity.*

*Add notes as necessary for an understanding of the sources of finance available to the entity.*

	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 <b>Total financing facilities</b>	-	-

7.5 **Unused financing facilities available at quarter end** -

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,797,487)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	3,566,440
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	3,566,440
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>1.98</b>

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: The Company expects the current level of net operating cashflows to improve due to:

- (a) an increase in sales,
- (b) a reduction in the fixed costs of the business, and
- (c) non-dilutive grant funding.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: The Company expects to receive an R&D grant of \$880,000 in relation to its 2019 R&D expense and upfront funding for a similarly sized grant in relation to its 2020 R&D expense. Both are expected to be received in the current quarter. The Company expects to receive additional funding through Australian and other non-dilutive grant programs in the current and next quarter. The Company has not taken any steps to raise cash through capital markets as it does not consider that this is currently needed.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes. Please refer to the answers above in relation to cash inflows. Please refer to the discussion on Financial Performance on page 3 of this report for additional information on the expected reduction in cash outflows.

## 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.

Date: 28 April 2020

Authorised by:   
Carla Balanco, Company Secretary

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.