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Adviser  
ASX Listings Compliance  
20 Bridge Street  
Sydney NSW 2000

13 February 2024

## **DroneShield Limited: Query Letter**

DroneShield Limited (**DRO** or the **Company**) refers to your letter dated 6 February 2024. Responses to your questions are below, this letter uses the defined terms used in your letter.

**1. Does DRO consider the Information (paragraph B) to be information that a reasonable person would expect to have a material effect on the price or value of its securities?**

Yes.

**2. If the answer to question 1 is “yes”:**

**2.1 Please explain the basis for that view, commenting specifically on whether the EFS Kit (as distinct from the DroneSentry-X Mk2 system):**

- (a) has had a material impact on DRO’s research and development costs in prior periods; and**
- (b) is expected to materially impact DRO’s future revenue, in the context of DRO’s reported cash receipts and grants of \$73.5 million for the year ending 31 December 2023 (paragraph C).**

The DroneSentry-X Mk2 system is a counter-UAS solution, initially designed for on-the-vehicle applications. The Company believes that DroneSentry-X Mk2 system sales (on a standalone basis) will have a material impact on revenue.

The EFS Kit is a significant new product for DRO as it enables the DroneSentry-X Mk2 system to be used without a vehicle, and efficiently set-up and deployed in broad range of use cases including fixed site or semi-permanent wide-area operations. The EFS Kit also enhances the ease of set up, streamlining a variety of scenarios for customer deployments.

The Company released the Announcement as it believes that the functionality provided by the EFS Kit has the potential to materially increase orders for the DroneSentry-X Mk2 system. The Company believes that the increased revenue from DroneSentry-X Mk2 system sales due to the additional functionality enabled by the EFS Kit, as well as the revenue from the EFS Kit itself, would have a material effect on the price or value of DRO’s securities. The Company is unable to quantify the potential impact on revenue at this time, but believes it will be material.

As the UAS technology changes rapidly it is essential that the Company also focus on rapid product development. Approximately 85 (being approximately 80%) of the Company’s 105 employees are involved in ongoing research and development (R&D) roles, with approximately 10% of the Engineering team, as well as a substantial amount of the Operations team having been involved in the EFS Kit project. Due to the Company’s speed of execution, the EFS Kit did not have a material impact on DRO’s R&D costs. The EFS Kit development was completed at the time of the announcement on 30 January 2024, with the development substantively falling into the FY23 period.

**2.2 Does DRO consider that the Announcement contained sufficient detail, as required by Section 4.15 of Guidance Note 8, for investors or their professional advisers to understand its ramifications and to assess its impact on the price or value of DRO's securities? If so, please explain the basis for that view.**

Yes, DRO considers that the Announcement contained sufficient detail. The Announcement provides detail of the capabilities and potential use cases for the EFS Kit. While the Company believes that the EFS Kit has the potential to materially increase orders for the DroneSentry-X Mk2 system, given the recency of the EFS Kit launch and the nascent nature of the C-UAS market, the Company is unable to provide further details to what has been provided.

**3. If the answer to question 1 is "no", please advise the basis for that view and explain:**

**3.1 why the announcement was marked as market sensitive when lodged on MAP; and**

**3.2 why DRO is of the view that the Announcement has not contravened ASX's guidance on "ramping".**

Not applicable.

**4. Please confirm that DRO is complying with the Listing Rules and, in particular, Listing Rule 3.1.**

Confirmed.

**5. Please confirm that DRO's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer with delegated authority from the board to response to ASX on disclosure matters.**

Confirmed. DRO's responses have been approved by its Board.

Yours sincerely,

Board of Directors



6 February 2024

Reference: 87765

Mr Paul Cenoz  
Legal Counsel and Joint Company Secretary  
DroneShield Limited  
Level 5, 126 Phillip St, Sydney NSW 2000  
By email: Paul.Cenoz@droneshield.com

Dear Mr Cenoz

**DroneShield Limited ('DRO'): Query Letter**

ASX refers to the following:

- A. DRO's announcement titled "DroneShield releases the Expeditionary Fixed Site (EFS) Kit for DroneSentry-X Mk2" ('Announcement'), lodged on the ASX Market Announcements Platform ('MAP') under the heading, "Launch of DroneSentry-X Mk2 Expeditionary Fixed Site Kit", at 9:00 am on 30 January 2024.

ASX notes that the Announcement was indicated by DRO to be "market-sensitive" when it was lodged on MAP.

- B. The Announcement that disclosed (relevantly):

*"[DRO] is pleased to announce the launch of its Expeditionary Fixed-Site (EFS) Kit (the 'EFS Kit') for the DroneSentry-X Mk2."*

*The EFS Kit ensures the adaptability of the DroneSentry-X Mk2 for fixed-site or semi-permanent wide area operations."*

(the 'Information')

- C. DRO's announcement titled "Quarterly Activities/Appendix 4C Cash Flow Report", lodged on MAP under the heading, "Monthly (sic) Activities/Appendix 4C Cash Flow Report", on 16 January 2024, which disclosed: "2023 record cash receipts and grants of \$73.5m..."
- D. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
- E. Section 4.15 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1–3.1B* ('Guidance Note 8'), which states:

*"Wherever possible, an announcement under Listing Rule 3.1 should contain sufficient detail for investors or their professional advisers to understand its ramifications and to assess its impact on the price or value of the entity's securities..."*

*Entities should not use an announcement under Listing Rule 3.1 as a guise to publish material that is really promotional, political or tendentious in nature rather than being information that a reasonable person would expect to have a material effect on the price or value of its securities."*

- F. Section 14 of Guidance Note 14 *ASX Market Announcements Platform*, which states:

*"MAP should only be used to publish information that is appropriately given to ASX under the Listing Rules or the Corporations Act for publication to the market."*

- G. Section 7.10 of Guidance Note 8, which states:

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*“ASX is alive to listed entities making market announcements with a view to “ramping up” the price of their securities. Ramping announcements come in many forms, including:*

- *the release of a “business update” or something similar, which will typically be worded in an exuberant fashion but which on closer examination contains little in the way of substance that has not already been disclosed to the market;” ...*

*Whenever ASX detects what it suspects to be a ramping announcement, it will give careful consideration to suspending the entity’s securities from trading and issuing a query letter to the entity asking the entity:*

- *if it marked the announcement as market sensitive when it was lodged on MAP, to identify what information in the announcement the entity considered was market sensitive and why;”*

### **Request for information**

Having regard to the above, ASX asks DRO to respond separately to each of the following questions and requests for information:

1. Does DRO consider the Information (paragraph B) to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. If the answer to question 1 is “yes”:
  - 2.1 Please explain the basis for that view, commenting specifically on whether the EFS Kit (as distinct from the DroneSentry-X Mk2 system):
    - (a) has had a material impact on DRO’s research and development costs in prior periods; and
    - (b) is expected to materially impact DRO’s future revenue, in the context of DRO’s reported cash receipts and grants of \$73.5 million for the year ending 31 December 2023 (paragraph C).
  - 2.2 Does DRO consider that the Announcement contained sufficient detail, as required by Section 4.15 of Guidance Note 8, for investors or their professional advisers to understand its ramifications and to assess its impact on the price or value of DRO’s securities? If so, please explain the basis for that view.
3. If the answer to question 1 is “no”, please advise the basis for that view and explain:
  - 3.1 why the Announcement was marked as market sensitive when lodged on MAP; and
  - 3.2 why DRO is of the view that the Announcement has not contravened ASX’s guidance on “ramping”.
4. Please confirm that DRO is complying with the Listing Rules and, in particular, Listing Rule 3.1.
5. Please confirm that DRO’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of DRO with delegated authority from the board to respond to ASX on disclosure matters.

### **When and where to send your response**

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:30 AM AEDT Monday, 12 February 2024**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, DRO’s obligation is to disclose the information ‘immediately’. This may require the information to be disclosed before the deadline set out above and may require DRO to request a trading halt immediately.

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Your response should be sent to me by e-mail at **ListingsComplianceSydney@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

### **Trading halt**

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in DRO's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

### **Suspension**

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in DRO's securities under Listing Rule 17.3.

### **Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to DRO's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that DRO's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

### **Release of correspondence between ASX and entity**

ASX reserves the right to release all or any part of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Yours sincerely

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ASX Compliance