

Quarterly Activities Report for the period ended 31 December 2016

Department 13 International Ltd (ASX : D13) (“D13” or “the Company”) a cutting-edge developer of communications and software systems, is pleased to provide an update on activities and cash flows for the period ended 31 December 2016.

Key highlights:

- Continued to support the US DoD to design novel drone defense technology contract of \$432,000 (USD) as announced on April 20, 2016
- \$400,000 (USD) contract awarded by PAR Government Systems to provide tactical edge to US warfighter
- Final phase of development and testing completed for MESMER™ Version 1.0, resulting in the product launch of the technology post the period end
- Demonstrations conducted to potential customers including the Australian Defence Force (ADF), Common Wealth Games and US Government federal and state agencies
- Live demonstration event to investors and media at AGM
- Two new US patents granted, most significant in D13’s quality IP portfolio
- Appointment of Roshni Sherbondy as Director of Business Development, former Department of Homeland Secretary Science and Technology Director of Explosive Portfolio and Thomas R. Cunningham as Strategic Advisor, Industry and Government Relations and former Boeing executive

The December quarter was a busy period for Department 13 dominated by the final stages of development and validation for the company’s flagship counter-drone product, MESMER which was launched to the market on 23 January 2017.

While the core focus was MESMER, the company was awarded a material contract in an adjacent business area in November. The US\$400,000 contract with PAR Government Systems Corporation to provide a series of mobile applications that will be tested and evaluated by United States Department of Defense to improve situational awareness and combat coordination for its operations.

In November, to coincide with the Annual General Meeting in Sydney, the company hosted the first international live demonstration of the MESMER technology to an audience including prospective customers, investors and media. The event marked the first of a number of

demonstrations conducted in November to a range of potential defense, security and law enforcement customers from a range of federal and state government agencies in Australia.

The Australian tour concluded with a demonstration of MESMER at the Metricon Stadium in Carrara, the flagship venue for the 2018 Gold Coast Commonwealth Games, as well as the Australian Defence Force Academy in Canberra. The demonstrations included a non-kinetic mitigation of multiple Unmanned Aerial Systems (UAS), performed simultaneously and received extremely positive feedback.

The company also presented at the ASX Spotlight Conference in Singapore and Hong Kong to a large group of institutional investors during the month of October.

To help drive sales of MESMER and capitalize on opportunities for the company's technology, Department 13 made a number of key appointments in the period. Roshni Sherbondy was appointed Director of Business Development and Thomas R. Cunningham as Strategic Advisor, Industry and Government Relations. Both bring invaluable expertise and key industry relationships to Department 13.

The company also continued to add to its are high-quality IP portfolio during the quarter with two new patents granted in the United States. Patent No. 9485063 for power efficient radio transmission which reduces costs of radio components while improving signal quality and battery life is the most significant patent award to date and represents a substantial competitive advantage for D13. Patent No. 9473226 was granted in October for sharing resources between wireless networks enhancing drone defense capabilities. Together D13 now has 13 patents and 22 patent applications in its IP portfolio.

Significant events after the quarter / outlook

Post period end, Department 13 launched its flagship counter-drone solution MESMER™ Version 1.0, with a number of customer trials currently underway and demonstrations for the product are now scheduled out through April. Department 13 has high confidence these initial customer trials will lead to 2nd quarter sales of Mesmer v1, thereby establishing MESMER as the market leader.

In support of our product launch, Department 13 will aggressively support sales and demonstration activities. We believe revenue will be recognized in 2nd Quarter from the beginning of product sales.

Department 13's CEO Jonathan Hunter commented:

"The December quarter was a significant one for Department 13 and progress with our counter-drone solution. We completed the final phase of testing for MESMER, followed by

some very successful demonstration events in the US and Australia to number of international government agencies and commercial parties.”

“We believe that our competitive advantages, namely our superior technology, extensive relationships and agreements with strategic distributors, will allow us to drive sales and establish the product as a leader in counter-drone market.”

-ENDS-

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About Department 13 International Ltd

Department 13 was founded in Virginia in 2010 by a team of former military operators, scientists and engineers who apply proprietary innovative advanced technology to emerging requirements.

D13 is developing cutting edge software and communication systems that have the potential to transform the networking and communication fields as well as current applications in drone defence, mobile phone IT security and secure enhanced android phone systems.

D13 has 13 patents and 22 patent applications in the development of wireless protocol manipulation and communication networking software with applications in:

- Drone defence
- Local area and wide area cellular communications and networking
- Enhanced data bandwidth for all digital communications
- Cyber security for mobile devices
- Sophisticated applications in the RF environment (Radiometrics).

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

Department 13 International Ltd

ABN

36 155 396 893

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	175	192
1.2 Payments for		
(a) research and development	(824)	(1,675)
(b) product manufacturing and operating costs	(35)	(59)
(c) advertising and marketing	(69)	(192)
(d) leased assets	-	-
(e) staff costs	(355)	(725)
(f) administration and corporate costs	(637)	(1,185)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	13
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (GST received, prepayment)	11	30
1.9 Net cash from / (used in) operating activities	(1,726)	(3,601)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(71)	(242)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(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	(71)	(242)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	6,500
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(387)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	6,113

4.	Net increase / (decrease) in cash and cash equivalents for the period	(1,797)	2,270
4.1	Cash and cash equivalents at beginning of quarter/year to date	6,470	2,513
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,726)	(3,601)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(71)	(242)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	6,113

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	274	164
4.6	Cash and cash equivalents at end of quarter	4,947	4,947

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'000	Previous quarter \$A'000
5.1	Bank balances	909	1,092
5.2	Call deposits	4,038	5,378
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)	4,947	6,470

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'000**

103

-

N/A

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'000**

221

-

Amounts included in item 7.1 relate to fees payments to key management personnel.

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
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.		

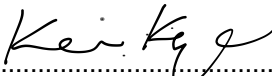
N/A

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	907
9.2 Product manufacturing and operating costs	179
9.3 Advertising and marketing	127
9.4 Leased assets	-
9.5 Staff costs	575
9.6 Administration and corporate costs	990
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	2,778

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  Date: 31 January 2017
(Director/Company secretary)

Print name: Kevin Kye
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Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.