

Corporate Commentary On the March Quarterly Appendix 4C

DEPARTMENT 13 INTERNATIONAL LTD (ASX : D13) (“Department 13”, “D13” or “the Company”) a leading-edge developer of counter drone technology, provides corporate commentary on the March quarterly Appendix 4C lodged with the ASX on 28 April 2017.

KEY HIGHLIGHTS:

- Revenues up 227% from the December 2016 Quarter.
- Commercial launch of our flagship product, MESMER® Counter Drone Solution.
- MESMER® licensed to US partner Booz Allen Hamilton Inc, a noted US Department of Defense prime contractor and systems integrator for use in demonstrations to US Navy and Marine Corps.
- US Department of Commerce cleared MESMER® for export outside of the US with an EAR99 classification, making MESMER® the only counter drone solution with a US export license.
- Presented at key industry events APEX 2017, Starburst Accelerator and Milipol Asia-Pacific 2017.
- Successful live demonstrations of MESMER® held in Australia and New Zealand to government, military and law enforcement agencies, which led to sales post period end to EPE, our Australian Distributor, as an initial order with expected further sales following the initial installation.
- Substantial potential sales pipeline from customer engagements for MESMER® related sales in excess of \$25 million over the next 6 months as the Company continues to expand its sales network worldwide.
- MESMER® V1 hardware and first year software licenses range from US\$275,000 per unit (depending upon configuration and enhanced capabilities) with recurring annual license fees.
- Requests for live demonstrations received from potential customers representing law enforcement, defense, and civilian security in international markets.
- Continued work under our existing contracts with the US DoD and PAR Government Systems.
- Expanded our IP portfolio and furthering our market leadership position. D13 now holds 14 U.S. granted patents, with 23 patents pending.
- U.S. Patent granted for “Spreading and Precoding in OFDM” technology which enables significant battery saving for radio transmitters including mobile phones.

The first three months of 2017 were significant for Department 13 with the launch of our flagship counter drone solution MESMER® Version 1.0, and with first sales achieved with partners Booz Allen Hamilton in the US, and with EPE in Australia.

The interest in the technology is reflective of MESMER® being a unique, non-jamming, non-kinetic drone mitigation software based solution, enabling an effective and safe method of protecting personnel and infrastructure from dangerous drones. MESMER®’s unrivalled protocol manipulation technology enables it to take control of drones and land them safely in a defined exclusion zone.

Booz Allen Hamilton License of MESMER

Booz Allen Hamilton, the company’s distribution partner in the US, licensed D13’s MESMER® counter drone technology to develop a full-scale installation to showcase the platform’s capabilities to tier one customers, predominately the United States Navy and Marine Corps.

EPE initial Sale in Australia

EPE, Department 13's strategic partner in the Australasian region, has purchased MESMER® Version 1.0 on behalf of an end customer as an initial order following a series of successful demonstrations with the end customer.

The sale consists of hardware required to run the proprietary software, enabling the client to control the outcome of a drone engagement. MESMER® v1.0 hardware and first year software licenses range from US\$275,000 per unit (depending upon configuration and enhanced capabilities) with recurring annual license fees. EPE will provide training and ongoing sales support in Australia for this client and future clients under a distribution agreement.

Commercial Sector Sales

In addition to the defense and government sectors, D13 is seeing an increasing interest in MESMER® from the commercial sector. As the regulatory environment for commercial drone defense takes shape, MESMER®'s non-kinetic, non-jamming approach resonates with commercial customers searching for a counter drone solution. In the U.S., legislators are introducing favorable language into bills that would allow for the protection of critical infrastructure and other sensitive areas where public safety is a concern from a drone threat.

In addition, commercial companies are vying for the right to protect their corporate campuses and areas of operation from drones which they view as a safety hazard or to protect their intellectual property. Commercial security operators and large venue owners are approaching D13 for discussion and demonstration as they formulate their counter drone strategy. The level of engagement between these customers and D13 is highly encouraging and validates

MESMER as a viable commercial solution. D13 maintains a very positive outlook for commercial sector sales as this market matures.

Goldman Sachs has estimated the total spending over the Global Drone Market from 2016 to 2021 to exceed US\$100 billion whilst Executive Business forecasts the Global Counter Drone Defense market to reach US\$1.14 Billion by 2022 with a compound annual growth rate (CAGR) of over 23%.

International Distributors and US ITAR Export License

D13 expanded its global reach launching active business development efforts in Central and South America through its Latin American Distributor, Phoenix Group, as well as in Asia and the Middle East.

As previously announced, the US Department of Commerce Bureau of Industry and Security (BIS) cleared MESMER® for export outside of the US, making the technology the only US counter drone solution with an export clearance of EAR 99 (enabling direct sales and "no export license required" excluding a few restricted countries). The US Department of Commerce also confirmed MESMER® as a 'Non-Jamming' and Dual Use counter drone solution. Most importantly, the clearance opened up the export of MESMER® to international markets and to future sales. D13 is receiving significant interest from customers representing law enforcement, defense, and civilian security from the international community.

Revenues from other D13 Products

In addition to the commercial launch and initial MESMER® sales, D13 continued to execute on its existing contracts with the US Department of Defense (DoD) and PAR Government Systems. D13's favorable execution on these contracts will enhance its standing with key customers and can deliver positive contract follow-on activity.

MESMER Demonstrations

D13 is driving the sales pipeline through live demonstration and direct interaction with the key potential customers. D13 successfully demonstrated MESMER® to key customers sets throughout Australia, New Zealand, and the U.S. These customers represent multiple market sectors including defense, law enforcement, commercial property owners, entertainment, and commercial security operators. In addition to demonstrations, D13 successfully participated in an urban operational test. During the test, MESMER® successfully detected drones within a complex urban radio frequency environment.

D13 showcased MESMER® throughout Australia, New Zealand, Singapore and the United States, including:

- An invited presentation at APEX 2017, sponsored by the Naval Postgraduate School Center for Homeland Defense and Security (CHDS). Robi Sen, Chief Technology Officer of Department 13, discussed the most pressing issues in homeland security to an audience of 1,400 alumni consisting of local, state, federal, business and military officials.
- Chief Executive Officer, Jonathan Hunter, showcased MESMER® at leading aerospace accelerator Starburst Accelerator, to over 200 participants in the aerospace industry, government agencies and institutional investors. Department 13 was the only drone defense company participating in the event and D13's technology was ranked as the top performer of the 11 companies presenting.
- Department 13 participated in Milipol Asia-Pacific 2017, a leading homeland security exhibition held in Singapore. MESMER® was showcased to over 400 delegates from more than 30 countries, and Department 13 was the only counter drone technology company invited to the Milipol Exhibit.



One of the many demonstrations held in Australia

New Patents and Technologies

D13 continues to invest in research and development that ensures MESMER® remains at the forefront of the market and expands our IP portfolio. D13's R&D is key to our product roadmap and will allow D13 to introduce future products in adjacent markets. D13 regularly highlights our current R&D activities with key customer sets. These customers routinely validate our technical vision and approach providing us with valuable feedback aligning our efforts with our target markets.

Patent granted for coding technology to dramatically reduce power consumption in mobile phones

D13 recently announced the issuance of a U.S. Patent for "Spreading and Precoding in OFDM" technology. This technology covers coding technology that can dramatically reduce power consumption and cost in radio transmitters, such as mobile phones. The patented technology can, in some cases, double the battery life of radio transmitters and is applicable to phones, computers, drones and cameras, providing significant IP licensing opportunities for Department 13.

In a period where service providers are seeking to drive higher content to mobile phones over more and more congested bandwidth, viewing higher content impacts the battery life of mobile devices.

The technology also enhances the ability of counter-drone systems to use networks of distributed sensors and will be utilised in future versions of MESMER®. Department 13 already owns and licenses a variety of patents that apply to wireless networks for managing drones and adapting to emerging threats.

Including this patent, D13 now holds 14 U.S. granted patents, with 23 patents pending.

Outlook

This past quarter, D13 has seen an increasing commercial sector interest in MESMER®. As the regulatory environment for commercial drone defense takes shape, MESMER®'s non-kinetic, non-jamming approach is being acknowledged as a truly viable commercial solution. This is generating significant interest from commercial security operators and large venue owners.

D13 now has a substantial potential sales pipeline from current customer engagements for MESMER® related sales in excess of \$25 million over the next 6 months as the Company continues to expand its sales network worldwide.

Commenting on the quarter, Department 13's CEO Jonathan Hunter said:

"The quarter was extremely significant for Department 13 with the commercial launch and subsequent sales of our flagship product, MESMER®. These initial sales to our partners Booz Allen Hamilton and EPE underline that Department 13's technology will play a significant role in the counter drone marketplace."

"With the increased global drone activity, the interest in our technology is growing on a daily basis. The successful demonstrations held in the last quarter and in recent weeks, have led to a number of trials and we expect these trials to convert into sales contracts in the near future."

Market Leadership

Department 13 is a recognised industry thought leader and MESMER®'s non-jamming, non-kinetic, software approach is acknowledged as suitable for both the battlefield and commercial urban environments. During the quarter, MESMER® and D13 have been spotlighted throughout the media including NBC's Today Show, Reuters, ZDNet, Popular Science, and Washington Times. See www.department13.com.

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About Department 13

Department 13 (D13) 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 defense, mobile phone IT security and secure enhanced Android phone systems. D13 is engaged with multiple counter UAS projects to provide strategic solutions for civil, military and commercial security requirements. D13's MESMER® Counter Drone System is a unique patented, low power, non-jamming, non-line of sight, non-kinetic drone mitigation solution, enabling an effective and safe method of protecting personnel and infrastructure from dangerous drones. D13 has 14 patents and 23 patent applications in the development of wireless protocol manipulation and communication networking software with applications in drone defense, local area and wide area cellular communications and networking, enhanced data bandwidth for all digital communications, cyber security for mobile devices and sophisticated RF technology applications (radiometrics). For more information about D13, please visit www.department13.com or follow us on Twitter (@D13ASX), LinkedIn and YouTube.