

First Shipment of MESMER 1.5 & FY17 Results

HIGHLIGHTS:

- Revenue of \$1.1m includes the sale of only 1 MESMER unit vs 5 already ordered in Q1'FY18
- Balance Sheet remains strong with \$4.9m in cash at end of June 2017
- First shipment of MESMER™ 1.5 Systems

DEPARTMENT 13 INTERNATIONAL LTD (ASX: D13) ("D13" or "the Company"), a cutting-edge developer of counter drone technology, today released Appendix 4E Preliminary Final Report for the year end 30 June 2017.

Revenue increased 179% to \$1.1m but only included the sale of one MESMER 1.0 unit during the period as well as 2 contracts with US Department of Defense. Post balance date the Company has already contracted to sell 5 MESMER™ 1.5 units and is pleased to advise that the first 4 were shipped to the client this week.

In addition to commercializing the first set of technologies it has been a significant year for D13 that has positioned the Company for substantial growth in coming years. During the year and post balance date, D13 has:

- Appointed distributors in Monaco, France, Thailand, Indonesia adding to distributors already in Australia and NZ, Mexico, Honduras, Costa Rica, Panama, Columbia, Chile, Peru.
- Expanded its patent portfolio from 11 to 15 patents that further strengthen our technology advantage in the drone mitigation and communication networking field. D13 sees the potential of strong IP licencing opportunities of these technologies.
- Begun repositioning the Board to reflect growth aspirations including the appointment of Tim Davies as Non-Executive Director.
- Raised \$11.4m (net of cost) via new issuance of shares
- Cancelled 284m Performance Shares (32% of issued capital of shares, performance rights and options) in July 2017.
- Appointed Core Source Technologies as our manufacturing partner and who has completed tooling and production processes and is ready to meet expected increase in Orders in the near term.

Outlook

Post balance date D13 has received delivery of its first production systems of MESMER™ 1.5 and following validation and testing, D13 has shipped the first 4 units this week with further 1 unit expected to be shipped next month.

Demonstrations of MESMER system have been ongoing over the last 6 months to a range of government and commercial customers in Europe, Middle East, Asia and United States. In many cases, clients have requested a follow up evaluation trial before committing to an initial system purchase. Current discussions with clients on initial purchase orders are in the range of a minimum of 1-5 MESMER units, with exception of 2 large government clients that have indicated potential orders significantly above this range.

Subsequently and in addition to the validation and shipment of the first 4 MESMER™ 1.5 systems the Company expects to receive multiple purchase orders for the system over the balance of the FY'18 year and expects to see a substantial uplift in revenue.

With D13 now in production and sales phase for its first core product, D13 is investigating working capital facilities to fund inventory and purchase orders to meet expected orders in a timely manner and is looking to have this in place by end of calendar year 2017.

CEO of Department 13, Jonathan Hunter commented *"The Company continues to see strong demand for trials and evaluations of the MESMER system as clients learn more about the strength of the product particularly over other drone defense systems. Importantly, these trials and evaluation requests are coming from both government and commercial clients, demonstrating the flexibility of MESMER across all environments. Whilst we cannot give exact timing of orders we are confident in a substantial increase in FY'18."*

-ENDS-

For more information, contact

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About Department 13

Based in Maryland, Department 13 (D13) was founded 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 15 patents and 25 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.

Rule 4.3A

Appendix 4E

Preliminary final report

Name of entity:

Department 13 International Ltd

ABN or equivalent company
reference:

36 155 396 893

1. Reporting period

Reporting period:

Year ended 30 June 2017

Previous corresponding period:

Year ended 30 June 2016

2. Results for announcement to the market

Current Period
2017
\$

2.1	Revenue from ordinary activities	Up	179%	to	1,101,151
2.2	Loss from ordinary activities for the period after tax attributable to members	Down	8%	to	6,221,243
2.3	Net loss for the period attributable to members	Down	8%	to	6,221,243
2.4 Dividends		Amount per security		Franked amount per security	
Final dividend		Nil		N/A	
Interim dividend		Nil		N/A	
2.5 Record date for determining entitlements to the dividends		N/A			

2.6 Brief explanation of any of the figures reported above to enable the figures to be understood:

There was a significant increase in employee and professional expenses in the period as the Group accelerated commercial delivery of MESMER.

As MESMER became commercially viable, the Group had also began capitalising development costs associated with MESMER from July 2016 onwards.

3. Consolidated Statement of Comprehensive Income

	Current Period 2017 \$	Previous Period 2016 \$
Revenues from continuing operations	1,101,151	394,501
Cost of goods sold	(439,507)	-
Gross profit	661,644	394,501
Interest income	26,300	-
Consulting expenses	(696,563)	(853,986)
Depreciation expense	(131,200)	(15,655)
Amortisation expense	(185,569)	-
Impairment expense	(24,326)	(47,677)
Bad debts expense	-	(2,059)
Transaction, relisting, and advisory fees	-	(2,709,933)
Employee benefits expense	(2,106,439)	(500,562)
Office and occupancy expenses	(302,226)	(169,068)
General and administration expenses	(490,846)	(553,529)
License fees and patent expense	(44,921)	(65,141)
Professional fees	(1,584,512)	(294,963)
Research and development expense	(596,085)	(1,519,661)
Materials	(11,367)	(29,717)
Advertising and marketing	(735,133)	(392,354)
Loss before income tax	(6,221,243)	(6,759,804)
Income tax (expense) / benefit	-	-
Loss after income tax expense from continuing operations	(6,221,243)	(6,759,804)
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations, net of tax	(320,550)	(112,531)
Total other comprehensive income	(320,550)	(112,531)
Total comprehensive loss for the year	(6,541,793)	(6,872,335)

Attributable to:		
Members of the Parent Company	(6,221,243)	(6,759,804)
Basic loss per share (cents per share)	(1.33)	(2.80)
Diluted loss per share (cents per share)	(1.33)	(2.80)

4. Consolidated Statement of Financial Position

	Current Period 30 June 2017 \$	Previous Period 30 June 2016 \$
Current Assets		
Cash and cash equivalents	4,924,890	2,513,371
Trade and other receivables	451,394	114,542
Inventory	11,795	-
Total Current Assets	5,388,079	2,627,913
Non-Current Assets		
Trade and other receivables	43,419	44,974
Property, plant and equipment	356,131	132,049
Intangible assets	2,288,552	-
Total Non-Current Assets	2,688,102	177,023
Total Assets	8,076,181	2,804,936
Current Liabilities		
Trade and other payables	943,190	535,867
Total Current Liabilities	943,190	535,867
Total Liabilities	943,190	535,867
Net Assets	7,132,991	2,269,069
Equity		
Issued capital	19,987,561	8,581,846
Other contributed equity	-	418,320
Reserves	(251,519)	69,031
Accumulated losses	(12,603,051)	(6,800,128)
Total Equity	7,132,991	2,269,069

5. Consolidated Statement of Cash Flows

	Current Period 30 June 2017 \$	Previous Period 30 June 2016 \$
Cash flows from operating activities		
Receipts from customers	839,154	344,492
Payments to suppliers and employees	(6,989,162)	(4,217,675)
Interest received	26,314	8,454
Refundable deposits paid	-	(46,289)
Net cash used in operating activities	(6,123,694)	(3,911,018)
Cash flows from investing activities		
Purchase of property, plant and equipment	(356,350)	(150,141)
Purchase of intellectual property	-	(28,986)
Development of intangible assets	(2,288,552)	-
Loans repaid by other entities	-	5,000
Cash in subsidiary on acquisition	-	4,562
Net cash used in investing activities	(2,644,902)	(169,565)
Cash flows from financing activities		
Shares issued net of issue costs	11,405,715	5,640,000
Loan proceeds received	-	1,000,000
Net cash provided by financing activities	11,405,715	6,640,000
Net increase in cash held	2,637,119	2,559,417
Cash and cash equivalents at the beginning of the year	2,513,371	39,396
Effects of exchange rate changes on cash	(225,600)	(85,442)
Cash and cash equivalents at the end of the year	4,924,890	2,513,371

6. Consolidated Statement of Changes in Equity

	Issued capital	Other contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2016	8,581,846	418,320	69,031	(6,800,128)	2,269,069
Loss for the year	-	-	-	(6,221,243)	(6,221,243)
Other comprehensive income	-	-	(320,550)	-	(320,550)
Total comprehensive loss for the year	-	-	(320,550)	(6,221,243)	(6,541,793)
Transactions with owners in their capacity as owners:					
Issued capital net of issued costs	12,048,859	-	-	-	12,048,859
Costs of issuing share capital	(643,144)	-	-	-	(643,144)
Options expired	-	(418,320)	-	418,320	-
Balance at 30 June 2017	19,987,561	-	(251,519)	(12,603,051)	7,132,991
Balance at 1 July 2015	29,258	-	1,702	(40,324)	(9,364)
Loss for the year	-	-	-	(6,759,804)	(6,759,804)
Other comprehensive income	-	-	(112,531)	-	(112,531)
Total comprehensive loss for the year	-	-	(112,531)	(6,759,804)	(6,872,335)
Transactions with owners in their capacity as owners:					
Issued capital net of issued costs	9,330,908	-	-	-	9,330,908
Costs of issuing share capital	(778,320)	-	-	-	(778,320)
Performance shares issued	-	418,320	-	-	418,320
Options issued	-	-	179,860	-	179,860
Balance at 30 June 2016	8,581,846	418,320	69,031	(6,800,128)	2,269,069

7. Dividends (in the case of a trust, distributions)

Date dividend is payable

N/A

⁺Record date to determine entitlements to the dividend

N/A

If it is a final dividend, has it been declared?

N/A

Amount per security

	Amount per security	Franked amount per security at 30% tax (see note 4)	Amount per security of foreign source dividend
Final dividend: Current year	NIL	N/A	N/A
Interim dividend: Current year	NIL	N/A	N/A

Total dividend (distribution) per security (interim *plus* final)

	Current period	Previous Period
Ordinary securities	N/A	N/A
Preference securities	N/A	N/A

8. Dividend or distribution plans in operation

N/A

The last date(s) for receipt of election notices for the ⁺dividend or distribution plans

N/A

9. Consolidated accumulated losses

	Current Period 2017 \$	Previous Period 2016 \$
Accumulated losses at the beginning of the financial period	(6,800,128)	(40,324)
Net loss attributable to members	(6,221,243)	(6,759,804)
Transfer from other contributed equity	418,320	-
Accumulated losses at end of financial period	(12,603,051)	(6,800,128)

10. NTA backing

	Current Period 2017	Previous Period 2016
Net tangible asset backing (deficiency) per ordinary share	0.0095	0.0055

11. Significant information

Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position:

Beginning from July 2016, the Group began capitalising MESMER development costs, when management deemed MESMER to be commercially viable.

12. Foreign entities set of accounting standards used in compiling the report (IAS)

The Company is not a foreign entity. Australian Accounting Standards have been applied consistently across all entities in the Group.

13. Commentary on the results for the period

13.1 Earnings per security (EPS)

	Current Period 2017	Previous Period 2016
Basic Loss per share (cents)	(1.33)	(2.80)

13.2 Returns to shareholders (Including distributions and buy backs)

	Current Period 2017 \$	Previous Period 2016 \$
Ordinary securities	-	-
Preference securities	-	-
Other equity instruments	-	-
Total	-	-

The dividend or distribution plans shown below are in operation.

N/A

The last date(s) for receipt of election notices for the dividend or distribution plans

N/A

Any other disclosures in relation to dividends (distributions).

N/A

13.3 Significant features of operating performance

There was a significant increase in employee and professional expenses in the period as the Group accelerated commercial delivery of MESMER.

As MESMER became commercially viable, the Group had also began capitalising development costs associated with MESMER from July 2016 onwards.

13.4 Segment Information

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

The Group operates in one segment being technology development specialising in drone defence, cyber security and RF software communications and networking. Department 13 Inc is based in Maryland, USA.

13.5 Report on trends in performance

Cashflows

The Group successfully raised \$12.05 million share capital, excluding raising costs, in FY 2017.

Operating cash outflows increased substantially in the second half of the year as the Group built out its manufacturing capabilities to ensure successful product delivery in Q1 2018.

Revenue

Revenue increased from the prior financial year by 179% and reflects the sale of 1 MESMER 1.0 unit and 2 contracts with the US Department of Defense.

Expenses

Operating expenses increased in FY'17 due to greater employee and professional expenses in the period as the Group accelerated commercial delivery of MESMER. Significant costs were also incurred in preparation of manufacturing the MESMER units for delivery to customers in Q1 2018.

The Group has continued investment in advertising and marketing ahead of the upcoming initial deliveries.

Balance Sheet

The Group had cash and cash equivalents at 30 June 2017 of \$4.92 million.

13.6 Report any factors which have affected the results during the reporting period or which are likely to affect results in the future, including those where the effect could not be quantified.

Revenues are expected to improve substantially in FY'18 with the initial delivery of 5 MESMER units already contracted and the expectation of further orders from demonstrations and evaluations that have been undertaken with government and commercial clients globally over the last 6 months..

Any other information required to be disclosed to enable the reader to compare the information presented with equivalent information for previous periods. This must include information needed by an investor to make an informed assessment of the entity's activities and results.

N/A

14. Compliance statement

This report is based on accounts to which one of the following applies.
(Tick one)

- | | | | |
|-------------------------------------|--|--------------------------|---|
| <input type="checkbox"/> | The accounts have been audited. | <input type="checkbox"/> | The accounts have been subject to review. |
| <input checked="" type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | The accounts have not yet been audited or reviewed. |

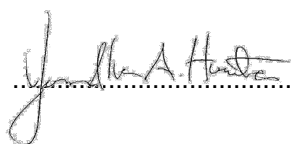
15. If the accounts have not yet been audited or subject to audit review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:

The report is based upon the accounts which are in the process of being audited, but the company does not anticipate any dispute or qualification.

16. If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:

The report is based upon the accounts which are in the process of being audited, but the company does not anticipate any dispute or qualification.

Sign here:



Date: 31 August 2017

Print name: Jonathan Hunter
Chief Executive Officer