

2017



Annual Report



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Department 13 International Ltd

Directors Report (continued)

Directors

Jonathan Hunter
Kathleen Kiernan
Alvin Teller
Philip George
Gavin Rezos (resigned 30 June 2017)
Timothy Davies (appointed 4 May 2017)

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RSM Australia Partners
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60 Castlereagh Street
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Lawyer

Steinepreis Paganin
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Australia

Department 13 International Ltd

Chairman's Letter

Dear Shareholders,

I am pleased to present your Company's 2017 annual report. In our first full year as a listed Company, a number of major milestones were met that now positions our Company for substantial and sustainable growth.

Established in 2010 as a Research and Development Company, the 2017 financial year resulted in your Company commercialising its first core technology; MESMER™, a counter drone product that can not only detect and identify drones but also mitigate drones. MESMER™ has significant applications across a range of industries, including national security, defence and commercial applications.

Numerous milestones were achieved during the year and post balance date and (as set out in more detail later in the report), includes:

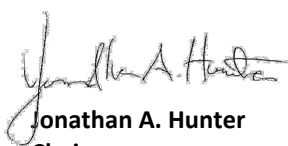
- Validation of MESMER™ at the Mitre Challenge and the US governments Black Dart event;
- Awarding of US\$734,635 in grants from US Department of Defence (DoD);
- Booz Allen Licence of a demonstration version of MESMER™;
- US Department of Commerce EAR99 classification allowing for the worldwide exportation of MESMER™ except for 5 countries;
- Issue of 5 additional Patents, D13 now holds 16 issued Patents and has 29 Patent Pending Applications;
- Raising of \$12m in Equity during the year;
- Expansion of global distribution partnerships;
- Appointment and completion of tooling of US based MESMER™ manufacturing partner;
- Cancellation of 284m performance shares, post year end (or 32% of diluted capital).

All of the above have enabled your Company during the year to commercialise and sell not only the first MESMER™ v1.0 unit but a further 5 MESMER™ v1.5 units (settled post balance date). Going forward the MESMER™ v1.5 will be sold at prices up to USD\$400,000, as compared to v1.0, which we were selling at USD\$275,000.

Your Company has conducted numerous demonstrations and trials across the globe, with government agencies and commercial operators and is expecting this will result in a significant increase in sales this financial year.

On behalf of the Board and myself, I would like to thank all of our key stakeholders for your continued support. We remain dedicated to growing shareholder value in the years ahead.

Yours Faithfully,



Jonathan A. Hunter

Chairman

Department 13 International Ltd

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Directors Report

Your Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as “D13” or the “Group”) consisting of Department 13 International Ltd (referred to hereafter as the “Company”) and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

The following persons were Directors of the Company during the financial year and up to the date of this report:

Jonathan Hunter	Chairman, CEO
Kathleen Kiernan	Executive Director
Alvin Teller	Executive Director
Philip George	Non-Executive Director
Tim Davies	Non-Executive director, appointed 4 May 2017
Gavin Rezos	Non-Executive Director, resigned 30 June 2017

Chief Executive Officer

Jonathan Hunter

Company Secretary

Kevin Kye

Information on Directors

Jonathan Hunter

Chief Executive Officer and Executive Chairman

Appointed 18 December 2015

Mr Hunter is the chief executive officer of D13, and is a former advisor to the US National Academy of Science on defence technology. Mr Hunter has more than 25 years’ experience in leadership positions within the US Military and US Government Advisory Committees. As a principal for D13, he is responsible for growing and managing all strategic relationships, including supporting, assisting, and advising the company's path to market and growth within the areas of the three levels of government.

Mr Hunter holds a Bachelor of Science majoring in Criminal Justice and an MBA (Technology Management Program).

Kathleen Kiernan

US Executive Director- Government Relations

Appointed 18 December 2015

Dr Kathleen Kiernan is the founder and CEO of Kiernan Group Holdings Inc. a global consulting firm specialising in law enforcement, defence, and intelligence industries with specialised support to federal and civil clients in the areas of strategy, policy, tactics, and training.

Dr Kiernan is a 30-year veteran of Federal Law Enforcement. She has previously served as the Assistant Director for the Office of Strategic Intelligence and Information for the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF), a Member of the Army Science Board, and a Member of the Air Force Strategic Studies Board.

Dr Kiernan is an appointed member to IBM Network Science Research Centre (NSRC), a collaboration between the Sensemaking Fellowship, Swansea University's Network/Relationship Science Analytics PhD Program, and scholars from academic institutions, such as MIT and Harvard. Dr Kiernan is also a member of the AFCEA Executive Committee, and the AFCEA Intelligence and Homeland Security Committees.

Department 13 International Ltd

Directors Report (continued)

Dr Kieran was the recipient of the US National Women of Influence-Public Sector award in 2010.

Dr Kiernan has a Doctorate in Education from the Northern Illinois University, a Master of Science in Strategic Intelligence from the Joint Military Intelligence College in Washington, DC, a Master of Arts in International Transactions from George Mason University Homeland Security Policy Institute, and she is a faculty member at The Johns Hopkins University and at the Naval Postgraduate School Centre for Homeland Defense and Security.

Alvin Teller

US Executive Director - Commercial

Appointed 18 December 2015

Mr Teller is the former Chairman and CEO of the MCA Music Entertainment Group (now Universal) and the former President of Columbia Records and CBS Records (now Sony). Mr Teller served as the music industry's representative on the National Information Infrastructure Advisory Council created by US President Bill Clinton to develop public policy regarding the Internet. He currently consults various organizations on corporate, internet and media strategies.

After MCA, Teller led two venture capital-funded businesses, Atomic Pop LLC and Red Ant Entertainment, both widely regarded as innovative milestones in the growth of the digital distribution of music through the Internet.

Mr Teller graduated from Columbia University with a BS in Electronics Engineering and an MS in Operations Research and went on to earn an MBA from Harvard Business School.

Philip George

Non-Executive Director

Appointed 18 December 2015

Mr George has experience as a managing director and operations manager with a strong background in cyber security and IT networking. He has previously worked as a general manager, technical director, global IT manager, team lead, and IT manager. For the last eleven years, Mr George primarily serviced the Finance, Oil & Gas, Start-up & Mining and Petrochemical industries. Mr George is the former Operations Manager for Uber Australia.

Mr George is the founder of NURV Consulting which delivers custom cloud based solutions to small & medium businesses. Over six years after establishing NURV Consulting, Mr George established and maintained wholesale and supplier relationships with Australian and international solutions providers to deliver premium-end customer solutions.

Timothy Davies

Non-Executive Director

Appointed 4 May 2017

Mr Davies is an experienced Chief Executive Officer with a demonstrated history of working in the global finance and investment industry. Tim has worked for high profile groups including Goldman Sachs and Consolidated Press Holdings.

Tim was Chief Investment Officer for Caledonia Asia from 2010 to 2012 and prior to that role, he established the China office of Ellerston Capital as Senior Portfolio Manager of China Investments

Department 13 International Ltd

Directors Report (continued)

Meetings of Directors

Director	Meetings	
	Eligible to Attend	Attended
Jonathan Hunter	6	6
Kathleen Kiernan	6	6
Al Teller	6	6
Philip George	6	6
Gavin Rezos	6	6
Timothy Davies	1	1

Review of Operations and Financial Results

Revenue increased 179% to AUD\$1,101,151, but only included the sale of one MESMER™ v1.0 unit during the period as well as revenue from contracts with the US Department of Defence (DoD). The net loss after tax for the year was AUD\$6,221,243 (2016 loss: AUD\$6,759,804).

Principal Activities and Strategy

Department 13 International Ltd (“D13” or “the Company”) 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, including applications in drone defence, 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 first commercialised product, 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 16 patents and 29 patent pending application in areas that include the development of wireless protocol manipulation and communication networking software, drone defence, 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).

After 7 years of development, D13 has commercialised its first core technology, MESMER™ a counter drone product that detects, identifies and mitigates drones. During the 2017 financial year (as well as post balance date), numerous milestones were achieved including:

Parsons Partnership (Jul 16)	D13 entered into a teaming agreement with Parsons on a \$245 million, 5-year multiple award, indefinite delivery/quantity contract by the Naval Research Laboratory Information Technology Division (NRL-ITD). Under this multimillion dollar contract, Parsons and D13 will provide research and development and other engineering support to the NRL-ITD. This will allow D13 to develop patented technologies for the US DoD, while minimizing research costs to the company. Parsons is an engineering, construction, technical, and management services firm based in the USA, with revenues of US\$3.0 billion in 2016.
Latin America Distributor (Jul 16)	D13 appointed Phoenix Group as its Latin America Distributor for MESMER™. The Phoenix Group provides world class security services, including the prevention of piracy, stowaways, terrorism, narcotics smuggling, and other unique services.
\$6.5m Raising (Jul 16)	D13 raised AUD\$6.5m through the issue of 52m new ordinary shares, at AUD\$0.125 per share. Proceeds were used to accelerate commercial delivery of MESMER™ v1.0.

Department 13 International Ltd

Directors Report (continued)

MITRE Challenge (August 16)	D13 was one of 8 finalists from 42 applicants worldwide to be selected for the MITRE Challenge. Moreover, D13 was selected as one of 2 finalists to present a mitigation system rather than a detection only option providing additional validation of the MESMER™ technology.
Black Dart Presentation (Sep 16)	D13 demonstrated the MESMER™ counter drone system at the U.S. Department of Defense (DoD) Black Dart event. Black Dart is an invitation-only premier counter drone and evaluation exercise, hosted by the DoD for technologies that detect, identify, track, defeat or disable Unmanned Aerial Systems (UAS). The selection by DoD further validated D13's technology, whilst enabling D13 to demonstrate the MESMER™ capabilities to a wide range of interested parties.
New Patent (Oct 16)	D13 was granted US patent 9473226 titled "Sharing Resources Between Wireless Networks", which enables a larger number of sensors and devices to operate efficiently within the limited radio spectrum and can expand a current network's data bandwidth and coverage by seamlessly integrating with third-party networks (e.g., licensed spectrum, network hardware, and network control operations). The patent further enhances D13's drone defence capabilities and advanced communication networking and can also permit licensed cellular spectrum to be used for other communications, without interfering with cellular networks.
New Patent (Nov 16)	D13 was issued U.S. Patent 9485063 related to power-efficient broadband data transmissions. The patent covers spreading codes for Orthogonal Frequency Division Multiplexing (OFDM). This reduces the cost of radio components and improves the signal quality and power efficiency of radio transmissions. This proprietary technology is applicable to a broad range of markets where battery-powered radios transmit broadband data. These markets include smartphones, 5G cellular, WiFi devices, drones, and action cameras.
US\$425,000 Contract (Nov 16)	D13 was awarded a USD\$425,000 contract by PAR Government Systems Corporation, to provide a series of mobile applications that will be tested and evaluated by the DoD's operational elements, to improve situational awareness and combat coordination. In a compressed decision space, D13's mobile applications enable matchless situational awareness and mission command, bringing speed and accuracy, in critical real-time on-field decision making.
MESMER™ v1.0 Launch (Jan 17)	D13 commercially launched its flagship counter-drone product, MESMER™ v1.0, a unique patented, low-power, non-jamming, non-line-of-sight, non-kinetic drone mitigation solution. MESMER™ enables an effective and safe method of protecting personnel and infrastructure from dangerous drones.
Clearance of MESMER™ for export (Feb 17)	D13 received EAR99 classification from the U.S. Department of Commerce Bureau of Industry and Security (BIS) for MESMER™. An EAR99 designation allows an item to be exported from the United States without any BIS license (referred to as "No License Required") to all but a few restricted countries. The BIS classification confirms that MESMER™ is a non-jamming product. MESMER™ is the only US Counter Drone Solution to have secured an export clearance of EAR 99.
Booz Allen Hamilton License (Mar 17)	Booz Allen Hamilton licensed a MESMER™ system for inclusion in prototype demonstrations made to the U.S. Military. The technology was procured solely to enable Booz Allen to demonstrate and enhance its general technical expertise and understanding of the challenges and threats presented by UAS. The licensing arrangement allows for BAH to conduct demonstrations of MESMER to their customer and client base which is mostly US Defence and Government.
New Patent (Apr 17)	D13 was issued U.S. Patent 9,628,231 titled "Spreading and Precoding in OFDM". The patent covers coding technology that can dramatically reduce power consumption and cost in radio transmitters. 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 D13. 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™.
First Sales of MESMER™ (Apr-May 17)	EPE, D13's strategic partner in the Australasian region, purchased 4 MESMER™ systems for an end customer, (details remain confidential under security regulations). The customer selected MESMER™ for its unique, low power, non-jamming, non-kinetic drone mitigation technology. A further sale was made to a Southeast Asian customer, who selected MESMER™ following a series of demonstrations at the Milipol International Exhibition of Homeland Security in April.

Department 13 International Ltd

Directors Report (continued)

\$5.5m Capital Raising (May 17)	D13 raised AUD\$5.5m through the issue of 44.35m new ordinary shares at AUD\$0.125 per share. Proceeds from the Placement were used for working capital. Tim Davies joined the Board as a Non-Executive Director.
Capital Restructure (Jun 17)	D13 cancelled 284m Performance Shares, which represented 32% of the issued capital, post placement in May. Gavin Rezos retired as a Non-Executive Director.
New Patent (Jun 17)	D13 was issued U.S. Patent 6,673,920 entitled "Intrusion Detection and Radio Fingerprint Tracking". The patent covers techniques that enhance security and privacy over Wi-Fi and cellular networks and enables MESMER™ to avoid detection, identification, and tracking, and to defend itself against potential countermeasures. There are additional highly valuable applications within cyber security.
Appoint Manufacturer (Jul-Aug 17)	D13 appointed Core Source Technologies, a local Maryland firm, to be the key manufacturing partner for the MESMER™ system. Core Source has the necessary capabilities and capacity to meet any significant increase in orders. All tooling and production planning was completed during the June Quarter for the MESMER™ product.
Upgrade to MESMER™ v1.5 (Aug 17)	D13's product development team successfully upgraded the platform to the MESMER™ v1.5 system. The key features included an advance in total drone detection range by up to 400% compared to MESMER™ v1.0. Other key improvements include expanded operational frequencies (433MHz, 915MHz, 2.4GHz, and 5.8GHz) and a new, single unit form factor. The new form factor allows for easier deployment of MESMER™ in fixed-site, vehicle, and man-portable applications. New Units will be priced at up to USD\$400,000, including the first year's annual licence fee. The MESMER™ v1.0 units purchased in April were upgraded to v1.5 but at v1.0 pricing, with four units shipped in August and a further unit shipped in September.
New Patent (Sept 17)	D13 was issued U.S. Patent No. 9,768,842 titled "Pre-Coding in Multi-User MIMO." The patent covers signal coding that dramatically reduces power consumption and cost in radio transmitters. The technology subsequently enables a new generation of cellular networks (5G). Fleets of drones will now be capable of replacing a network of cell towers or supporting existing networks in the case that communications are knocked out. The technology also substantially increases the battery life of phones, computers, drones and cameras, providing additional IP licensing opportunities for D13.

Drone and Autonomous Systems Overview

By definition, a drone is an unmanned craft that can sense its environment and navigate it without human control. However, this has been expanded to include remote-controlled devices; such as commercial radio-controlled unmanned aerial vehicles (UAV's).

Since World War II, drones or UAV's have become increasingly sophisticated and common. Current drones can execute complex tasks and missions, from delivering cargo, performing search- and- rescue missions, performing mapping, and even planting crops.

Much like other commercial electronics, drones have become increasingly cheap, small and popular. Estimates suggest that in the US alone, consumers have purchased one million drones. Worldwide, many millions of commercial, industrial and military drones fill the sky. In the next five years, drones will be increasingly common to the point of ubiquity.

Department 13 International Ltd

Directors Report (continued)

Current Trends in the Commercial Drone Market

Commercial investment in drones continues to increase, especially within the infrastructure and agriculture industries. As can be seen in Figure 1 below, commercial drones which, can carry large payloads and fly further, will become more common in the skies. This will create several opportunities for Counter Unmanned Aerial Systems (C-UAS) companies, such as D13, especially around detection, strong identification, tracking and mitigation.

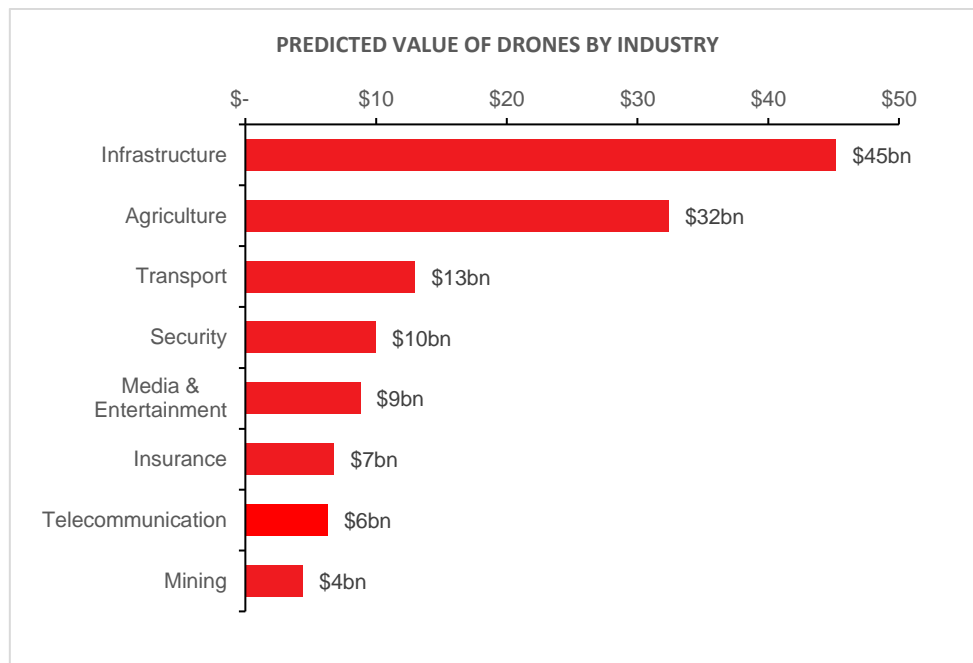


Figure 1: Graphic shows the predicted value of various drone services by industry.

Risks and Threats of Drones and UAV's

The most common and likely threats from drones are expected to come from inexperienced drone users, who fly their drones into areas they should not be in, such as the flight paths of airliners. Whilst there have been thousands of reported near-collisions between drones and airliners, there is fortunately yet to be a reported collision. That being said, these incidents have shut down airports, caused flight diversions and resulted in property damage, financial harms and disruptions.

In the past two years, drones have become a common concern for those managing critical infrastructure throughout the world, particularly due to the increased threat of terrorism. Major incidents include:

- Drones being used to drop drugs, cell phones, and even weapons into prisons.
- Military bases reporting drones being used to survey bases and harass aircraft.
- In France, a drone was seen flying around a fuel depot, before and after it was bombed by terrorists.
- In the Middle East, terrorists have been using small, commercial drones to carry explosives and drop small bombs on opposition forces.

Future Threats from Drones and Autonomous Systems

A major driver of the development of MESMER™ by D13 is the belief that other autonomous vehicles such as cars, trucks, ships, submersibles and of course UAV's, will become increasingly ubiquitous around the world.

Furthermore, technology trends, such as adding machine learning and autonomy to the Internet of Things (IoT) or highly connected sensors, bots and gadgets are becoming increasingly common. While all these devices bring great promise to enhance human endeavours, they also raise the potential for serious security issues.

Department 13 International Ltd

Directors Report (continued)

Increased autonomy in everything from consumer electronics to vehicles creates great potential for accidents, malicious hacks and weaponised systems that are even harder to defeat. In the Middle East, we have already seen ISIS and others experimenting with developing self-driving cars to be used as vehicle-borne IED's (improvised explosive devices).

Current Available Counter-Systems

As autonomous cars and devices of all forms increasingly become imbedded in our everyday lives, there is a need to build effective technology that can protect potential targets. This technology however, must also ensure it does not cause massive damage to their surroundings.

For example, missiles, cannons, jamming guns and other kinetic weapons used in an urban area to defeat a drone may cause more harm than a weaponised drone or vehicle itself.

Devices like net-guns, designed to capture other drones and firearms, are increasingly becoming less useful as a deterrent. Drones now have the ability to detect other objects, allowing the drone to manoeuvre away from oncoming objects as a form of collision avoidance.

Furthermore, most systems for countering drones would be ineffective as they are incapable of scaling against a swarm of devices. These are the threats that Department 13 and MESMER™ are seeking to solve.

Trends in the Counter Drone Market

The C-UAS sector has recently seen a large increase in government spending, with total US government spending growing from USD\$200 million in 2016 (US Department of Defense alone) to USD\$1 billion in 2017 (across all US government agencies). This figure includes almost USD\$500 million dollars in new C-UAS systems, to be extensively tested over the next 12 months.

While this seems like a significant amount of money, the C-UAS sector expects even greater expenditure in 2018 and 2019, as the US and other world governments order additional C-UAS systems following initial evaluations, tests and the deployment of systems.

Commercial Development

A much harder market to predict is the adoption of C-UAS technology by commercial and civilian organisations. Large commercial entities that have been evaluating C-UAS technologies continue to keep the results of their evaluations and tests private. However, there has been some media coverage of C-UAS evaluations from companies that support critical infrastructure, such as the Super Bowl or The Olympics.

Changing Expectations

As a result of the rapid increase in the severity of threats from drones in conflict areas such as the Middle East, Afghanistan, and Central Europe, large defence organisations and soldiers have performed extensive tests and evaluation of a number of C-UAS. A significant flaw identified in current field systems is the inability to detect drones beyond a range of a few hundred metres, as well as the inability to take control of a drone once detected.

Defence and security organisations are also looking at systems that can operate as part of a multi-sensor system, that offers layers of defence. These systems require the ability to connect into existing radar, cameras, sensors, and even weapon systems. Customers also need to detect and affect swarms of drones or multiple targets in different areas.

Department 13 International Ltd

Directors Report (continued)

Business Overview

Product Overview

MESMER™, counter drone technology is the first piece of intellectual property that D13 has focussed on commercialising. MESMER™ is a counter drone hardware and software solution that allows for the detection, identification and mitigation of hostile and nuisance drones at a range of up to 4 kilometres. Demand for drone defence is rapidly growing, necessitated by the growing threat in both commercial and defence focused applications.

Department 13's MESMER™ Platform



Figure 1 Contact Inc Photo credit

Detection and Identification Technologies

Drone detection technologies vary in their capabilities, with respect to drone size and detection range. The following represent a few of the more commonplace technologies currently being used:

- Acoustic
- GPS
- Laser
- Radar
- Radio Frequency

MESMER™ uses the latter (Radio Frequency), allowing excellent range (up to 4km's) and an ability to detect both the drone and its operator. Similarly, there are a number of drone mitigation technologies that allow for a nuisance or threatening drone to be stopped or destroyed:

- Kinetic
- Jamming
- Geo-air fencing
- Protocol Manipulation

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Directors Report (continued)

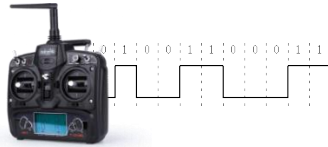
MESMER™ utilises protocol manipulation, which gives rise to a number of benefits and a strong competitive advantage within the drone defence industry. Protocol manipulation is a three-part process:

1. Detection



MESMER™ passively listens to the unlicensed radio frequency space, searching for drone radio frequency signals

2. Identification



It uses signal analysis and information inspection to provide high-confidence identification of the drone

3. Mitigation



It takes advantage of protocol weaknesses, to take control of the drone and send valid commands to the drone, becoming the new controller of the drone

Unlike Jamming guns, which are currently illegal to operate in most countries without official approvals, protocol manipulation results in minimal interference with other radio frequency devices (i.e. mobile phones). Most pertinently, MESMER™ allows for the *controlled* landing of a drone. This means that once MESMER™ takes control of a drone, it is able to force it to land in either a specified location, or alternatively be sent back to its take-off position. This is imperative: if a drone is carrying an explosive device or chemical weapon, a kinetic hit on the same drone would likely result in the detonation of the explosive or dispersion of chemicals, resulting in a major threat to both civilians and infrastructure.

MESMER™ software is hinged upon D13's technicians and engineers identifying and recording the unique radio frequency signatures that each drone uses to communicate with its controller. The collection of these signatures makes up a library, which is continuously updated to provide protection against new drones and drones not previously included. MESMER™ is therefore only effective against those drones catalogued in the MESMER™ library. However, MESMER™ software has the capability of being integrated with other forms of mitigation, meaning that it can provide the outer layer of a drone defence strategy, which can then alternatively trigger other technologies (Jamming or Kinetic) as a last line of defence.



MESMER™ hardware includes:

- A high-performance commercial general purpose computer, with all necessary networking interfaces running MESMER™ software
- Rackmount packaged, commercially available software defined radios and RF front end
- Android device running ATAK-based operator console
- Omnidirectional antennas and RF cabling
- A ruggedised environmental closure

Department 13 International Ltd

Directors Report (continued)

Sales Cycle

D13 has sold five MESMER™ v1.5 units to date, with the path to sales loosely structure in a five-part process:

Inquiry	Demonstration	Requirements	Initial Order	Repeat Order
D13 takes inquiry and conducts initial analysis on the client	D13 undertakes demonstration of MESMER™ at D13 head office	Review of client requirements and DD on client undertaken at head office or client's location	Provides customised hardware and software solution	Provides multiple MESMER™ units for use across numerous locations

The D13 sales process varies in duration, dependent on the client's individual circumstances. Government contracts typically take longer to materialise, whereas private entities generally result in a shorter conversion time.

D13 has signed exclusive distributor agreements with the following partners to sell MESMER™ systems into the associated countries:



1. EPE Equipment (EPE) – trading as Zangold Pty Ltd – Australia and New Zealand
2. Heath and Lee Services Co Ltd – Thailand and Indonesia
3. Phoenix Group Panamá S.A – México, Honduras, Costa Rica, Panamá, Columbia, Chile, Perú
4. Scopex SARL – France
5. JCPX Development – Monaco

Department 13 International Ltd

Directors Report (continued)

Intellectual Property Portfolio

Patent	Description
MESMER™ Technologies	<p>MESMER™ is supported by additional patented and patent-pending technologies, which include:</p> <ol style="list-style-type: none"> 1. Distributed antenna systems, which bring massive increases to data bandwidth, radio performance, coverage, and power efficiency. 2. Efficient network protocols that improve the speed and quality of streaming data in both content delivery networks and wireless networks. 3. Cloud network architectures for radio and sensor networks. 4. Secure communications that are difficult to detect and intercept. 5. Advanced network security modelled after the human body's immunological response 6. Signal warfare based on some of the above technologies for observing and manipulating enemy communications.
C-MIMO	In wireless networks, Cooperative MIMO can increase data bandwidth 1,000-fold or more and is a gamechanger for cellular and Wi-Fi markets. It is a Cloud-based computing system combined with a distributed sensor network, enabling novel capabilities that enhance C-UAS, such as highly localised electronic countermeasures against targets and effective responses to UAS swarms.
SC-FDMA	SC-FDMA reduces the power consumption of RF power amplifiers used to transmit broadband downlink data. This is vital for extending the life of battery-powered devices. SC-FDMA offers substantial power savings for camera drones and battery-powered sensors.
C-RAN	C-RAN provides an efficient framework for Artificial Intelligence in future C-UAS because it efficiently partitions signal processing operations between the network edge and the core network in order to optimise processing and bandwidth resources. Aspects of C-RAN are being implemented in D13's current Counter-UAS development.
Airborne Relays	Highly mobile airborne platforms provide a distributed sensor network to extend range for C-UAS detection and mitigation. Airborne relays cooperatively navigate to enhance radio-processing objectives, such as detecting a target UAS, performing electronic countermeasures, or quickly deploying a wireless data network with optimal capacity and link quality. Swarm-based algorithms employing our patented multi-objective optimisation algorithms exploit the mobility of aerial platforms to solve complex problems in the most efficient way possible.
UAV Intrusion Detection & Countermeasures	These patents describe techniques for adapting detection and mitigation for threats that use unknown radio protocols. If the signal can't be identified, its features are used to develop effective electronic countermeasures. The system monitors the effectiveness of each countermeasure, so it can learn and evolve as it encounters new threats.
SDR	The bottleneck for efficient processing in C-UAS/IoT is the network between the sensors and the central processor. A distributed SDR performs a portion of the physical-layer processing at the sensor, which greatly reduces the amount of data transmitted to the central processor.
CSC	Proven by MIT and Caltech, CSC is the most efficient form of Linear Network Coding and improves network efficiency between the sensors and the central processor. Published results show a 5-fold to 20-fold increase in data bandwidth. CSC also facilitates Cloud storage and channel bonding.
Tactical Network Dominance	These patents broadly cover detecting, analysing, and identifying radio networks employed by hostile entities, followed by a tactical response that exploits detected vulnerabilities in the enemy radio network as part of a systems infiltration strategy.

Department 13 International Ltd

Directors Report (continued)

Outlook

Post balance date, D13 has received delivery of its first production systems of MESMER™ v1.5 and following validation and testing, D13 has shipped the first 4 units in August and 1 further unit is expected to be shipped before the end of Q1 FY'18.

Demonstrations of the MESMER™ system have been ongoing over the last 9 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 the exception of 2 large government clients that have indicated potential orders significantly above this range.

Subsequently, and in addition to the validation and delivery of the first 5 MESMER™ v1.5 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.

Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the financial period.

Matters Subsequent to Balance Date

First Shipment of MESMER™ 1.5

Post-balance date, D13 has received delivery of its first production systems of MESMER™ v1.5 and following validation and testing, D13 has shipped the first 4 units in the last week of August with further 1 unit expected to be shipped before the end of Q1 FY'18.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

- a) The Group's operations in future financial years; or
- b) The results of those operations in future financial years; or
- c) The Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this financial statement because the Directors believe it could potentially result in unreasonable prejudice to the Group.

Environmental regulation

The Group's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation. The Board considers that adequate systems are in place to manage the Group's obligations, and is not aware of any breach of environmental requirements as they relate to the Group.

Dividends

No dividends were paid to members during the financial year (2016: \$Nil).

Indemnification of officers

During the financial year the Group paid premiums in respect of a contract insuring Directors and Executives against a liability incurred in the ordinary course of business.

Proceedings on behalf of the Group

No person has applied to the Court for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

Department 13 International Ltd

Directors Report (continued)

No proceedings have been brought or intervened in on behalf of the Group.

Auditor's independence declaration

A copy of the auditor's independence declaration is set out on page 23.

Auditor

RSM Australia Partners was appointed as the Company's auditor on 23 September 2015.

Department 13 International Ltd

Remuneration Report

This report outlines the remuneration arrangements in place for Directors and Executives of the Group.

Remuneration philosophy

The performance of the Group depends upon the quality of its Directors and Executives, and the ability of the Group to attract, motivate, and retain highly-skilled directors and executives.

Remuneration committee

The board has not established a remuneration committee as the role of the committee is undertaken by the full board. The board employs appropriate processes to set the level and composition of remuneration for directors and senior executives. The board ensures that such remuneration is appropriate and not excessive, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board of Directors recognises that the success of the Group will depend on the quality of its directors and its senior management. For this reason, the Remuneration Committee reviews the remuneration arrangements for all senior employees to ensure that it attracts and keeps motivated, highly-skilled and appropriately qualified Directors and Executives.

Structure

The Company's Constitution and the ASX listing rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting of shareholders. An amount not exceeding the amount determined by shareholders in general meeting is then available to be split between the Directors as agreed between them. The latest determination was at the Annual General Meeting held on 30 November 2015, when shareholders approved an aggregate remuneration amount of up to \$500,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned between directors is reviewed annually. The Board takes into account the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. The Chairman receives a higher fee in recognition of the additional time commitment required of a Chairman.

Non-executive directors are encouraged by the Board to hold shares in the Company (purchased by the Directors on market). It is considered good governance for directors to have a stake in the company on whose board they sit.

The remuneration of non-executive directors for the year ending 30 June 2017 is detailed in Table 5 of this report.

Department 13 International Ltd

Remuneration Report (continued)

Senior manager and executive director remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee reviews market conditions and the circumstances of the Company to ensure that the remuneration offered is sufficient to attract executives of the highest calibre.

Fixed remuneration

The fixed remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Equity-Based Remuneration

The equity-based remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Table 1 - Shareholdings of key management personnel

Key Management Personnel	Opening balance	Granted as compensation	Acquired	Balance 30/06/2017
J Hunter	41,600,000	-	-	41,600,000
K Kiernan	125,000	-	-	125,000
A Teller	50,000	-	-	50,000
P George	50,000	-	-	50,000
T Davies	- ¹	-	-	-
G Rezos	23,225,000	-	450,000	23,675,000 ²
R Sen	40,000,000	-	-	40,000,000
S Shattil	20,800,000	-	-	20,800,000
S Kaminaris	-	-	-	-
Total	125,850,000	-	450,000	126,300,000

¹ Securities held at date of appointment on 4 May 2017

² Securities held directly and indirectly at date of resignation on 30 June 2017

Department 13 International Ltd

Remuneration Report (continued)

Table 2 - Performance shares held by key management personnel

Key Management Personnel	Opening balance	Perf. shares converted	Perf. Shares lapsed	Perf. Shares cancelled	Balance 30/06/2017
J Hunter	40,000,000	-	-	(40,000,000)	-
K Kiernan	-	-	-	-	-
A Teller	-	-	-	-	-
P George	-	-	-	-	-
T Davies	- ¹	-	-	-	-
G Rezos	26,500,000	-	-	(26,500,000)	- ²
R Sen	40,000,000	-	-	(40,000,000)	-
S Shattil	20,000,000	-	-	(20,000,000)	-
S Kaminaris	-	-	-	-	-
Total	126,500,000	-	-	(126,500,000)	-

¹ Securities held at date of appointment on 4 May 2017

² Securities held directly and indirectly at date of resignation on 30 June 2017

Table 3 - Option holdings of key management personnel

Key Management Personnel	Opening balance	Options acquired	Options exercises	Options lapsed	Balance 30/06/2017
J Hunter	-	-	-	-	-
K Kiernan	-	-	-	-	-
A Teller	-	-	-	-	-
P George	-	-	-	-	-
T Davies	- ¹	-	-	-	-
G Rezos	17,000,000	-	-	-	17,000,000 ²
R Sen	-	-	-	-	-
S Shattil	-	-	-	-	-
S Kaminaris	-	-	-	-	-
Total	17,000,000	-	-	-	17,000,000

¹ Securities held at date of appointment on 4 May 2017

² Securities held directly and indirectly at date of resignation on 30 June 2017

Department 13 International Ltd

Remuneration Report (continued)

Table 4 - Performance right holdings of key management personnel

Key Management Personnel	Opening balance	Rights acquired	Rights exercised	Rights lapsed	Balance 30/06/2017
J Hunter	12,500,000	-	-	-	12,500,000
K Kiernan	3,000,000	-	-	-	3,000,000
A Teller	3,000,000	-	-	-	3,000,000
P George	1,250,000	-	-	-	1,250,000
T Davies	⁻¹	-	-	-	-
G Rezos	4,000,000	-	-	-	4,000,000 ²
R Sen	12,500,000	-	-	-	12,500,000
S Shattil	5,000,000	-	-	-	5,000,000
S Kaminaris	-	-	-	-	-
Total	41,250,000	-	-	-	41,250,000

¹ Securities held at date of appointment on 4 May 2017

² Securities held directly and indirectly at date of resignation on 30 June 2017

Table 5 - Details of remuneration

2017	Salary and fees	Other fees	Post-employment benefits	Share based payments	Total
Name	\$	\$	\$	\$	\$
Directors					
J Hunter	221,997	-	-	-	221,997
K Kiernan	33,134	3,401	-	-	36,535
A Teller	33,134	60,196 ¹	-	-	93,330
P George	24,000	-	-	-	24,000
T Davies	4,000	-	-	-	4,000
G Rezos	36,011	2,651	-	-	38,662
R Sen	227,795	-	-	-	227,795
S Shattil	227,795	-	-	-	227,795
S Kaminaris	245,190	-	-	-	245,190
Total	1,053,056	66,248	-	-	1,119,304

¹ Relates to provision of services for strategic marketing and communication support

Department 13 International Ltd

Remuneration Report (continued)

Performance of the company and shareholder returns

The application of Department 13 International Limited's executive reward framework have regard to the following shareholder return indices. No historical data has been provided given the company only listed on the ASX in the current financial year.

	2017	2016
	\$	\$
Sales revenue	1,101,151	394,501
EBITDA	(5,904,474)	(6,744,149)
Loss after income tax	(6,221,243)	(6,759,804)
Share price at financial year end (\$)	0.13	0.13
Basic loss per share (cents per share)	(1.33)	(2.80)



Jonathan Hunter
Chief Executive Officer

29 September 2017

Department 13 International Ltd

Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Department 13 International Ltd ('the Company') has adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Company's Corporate Governance Statement for the financial year ending 30 June 2017 is dated and was approved by the Board on 29 September 2017. The Corporate Governance Statement is available on the Company's website at <http://www.department13.com>

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Department 13 International Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink that reads 'RSM'.**RSM AUSTRALIA PARTNERS**A handwritten signature in blue ink that reads 'G N Sherwood'.

G N Sherwood
Partner

Sydney, NSW

Dated: 29 September 2017

Department 13 International Ltd

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2017

		For the Year Ended 30 June 2017	For the Year Ended 30 June 2016
	Notes	\$	\$
Revenue from continuing operations	3	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)
Cost of listing including advisor fees	4	-	(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	5	-	-
Loss for the year		(6,221,243)	(6,759,804)
Other comprehensive income			
<i>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</i>			
Exchange differences on translating foreign operations, net of tax		(320,550)	(112,531)
Total comprehensive loss for the year		(6,541,793)	(6,872,335)
Earnings per share			
<i>From continuing operations</i>			
- Basic/diluted losses per share (Cents)	20	(1.33)	(2.80)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Department 13 International Ltd
Consolidated Statement of Financial Position
As at 30 June 2017

		As at 30 June 2017	As at 30 June 2016
	Notes	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	6	4,924,890	2,513,371
Trade and other receivables	7	451,394	114,542
Inventory	8	11,795	-
Total Current Assets		5,388,079	2,627,913
Non-Current Assets			
Trade and other receivables	7	43,419	44,974
Property, plant and equipment	9	356,131	132,049
Intangible assets	10	2,288,552	-
Total Non-Current Assets		2,688,102	177,023
Total Assets		8,076,181	2,804,936
LIABILITIES			
Current Liabilities			
Trade and other payables	11	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			
Contributed equity	13	19,987,561	8,581,846
Other contributed equity	13	-	418,320
Reserves	14	(251,519)	69,031
Accumulated losses		(12,603,051)	(6,800,128)
Equity		7,132,991	2,269,069

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Department 13 International Ltd

Consolidated Statement of Change in Equity

For the Year Ended 30 June 2017

		Contributed equity	Other contributed equity	Accumulated Losses	Reserves	Total
	Notes	\$	\$	\$	\$	\$
2016						
At 1 July 2015		29,258	-	(40,324)	1,702	(9,364)
Loss for the year		-	-	(6,759,804)	-	(6,759,804)
Foreign currency translation reserve movement		-	-	-	(112,531)	(112,531)
Total comprehensive loss		-	-	(6,759,804)	(112,531)	(6,872,335)
Shares issued in the period, net of issue costs	13	8,552,588	-	-	-	8,552,588
Performance shares issued	13	-	418,320	-	-	418,320
Options issued	14	-	-	-	179,860	179,860
At 30 June 2016		8,581,846	418,320	(6,800,128)	69,031	2,269,069
2017						
At 1 July 2016		8,581,846	418,320	(6,800,128)	69,031	2,269,069
Loss for the year		-	-	(6,221,243)	-	(6,221,243)
Foreign currency translation reserve movement		-	-	-	(320,550)	(320,550)
Total comprehensive loss		-	-	(6,221,243)	(320,550)	(6,541,793)
Shares issued in the period, net of issue costs	13	12,048,859	-	-	-	12,048,859
Share issue costs	13	(643,144)	-	-	-	(643,144)
Cancellation of performance shares	13	-	(418,320)	418,320	-	-
At 30 June 2017		19,987,561	-	(12,603,051)	(251,519)	7,132,991

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Department 13 International Ltd
Consolidated Statement of Cash Flows
For the Year Ended 30 June 2017

		For the Year Ended 30 June 2017	For the Year Ended 30 June 2016
	Notes	\$	\$
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 outflow from operating activities	17	(6,123,694)	(3,911,018)
Cash flows from investing activities			
Payments for plant and equipment		(356,350)	(150,141)
Payment for intellectual property		-	(28,986)
Development of intangible assets		(2,288,552)	-
Loans repaid by other entities		-	5,000
Cash acquired in transaction	4	-	4,562
Net cash outflow from 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 inflow from financing activities		11,405,715	6,640,000
Net increase in cash and cash equivalents		2,637,119	2,559,417
Cash and cash equivalents at the beginning of the financial year		2,513,371	39,396
Foreign exchange adjustment to cash balance		(225,600)	(85,442)
Cash and cash equivalents at end of the year		4,924,890	2,513,371

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017

1 Summary of significant accounting policies

These consolidated financial statements and notes represent those of the consolidated entity (referred to hereafter as the 'Group') consisting of Department 13 International Ltd (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standard Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes. The accounting policies that have been adopted in the preparation of the statements are as follows:

Accounting policies

(a) Basis of consolidation

Basis of consolidation The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2017. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

(b) Reverse acquisition accounting

On 18 December 2015, Department 13 International Ltd (formerly Kunene Resources Limited, "D13 International") wholly acquired Department 13 LLC.

Under the accounting standard applicable to business acquisitions, AASB 3 *Business Combinations (FP)*, the acquisition does not meet the definition of a business combination as the net assets of D13 International at the date of acquisition did not represent a business. The transaction has therefore been accounted for as a reverse acquisition of D13 International by Department 13 LLC. The transaction has been accounted for by reference to AASB 2 *Share Based Payments* as a deemed issue of shares. Under this scenario, Department 13 LLC is deemed to be the acquirer and D13 International is deemed to be the subsidiary. Applying the reverse acquisition method of accounting, following the acquisition, the consolidated financial statements are required to represent the continuation of the financial statements of Department 13 LLC from the date of acquisition.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

The impact of the reverse acquisition on each of the primary statements is as follows:

- **Consolidated Statement of Financial Position:** the 30 June 2016 consolidated statement of financial position represents both D13 International (formerly Kunene Resources Limited) and Department 13 LLC. The 30 June 2015 statement of financial position represents the position of Department 13 LLC at 30 June 2015.
- **Consolidated Statement of Profit or Loss and Other Comprehensive Income:** the 30 June 2016 consolidated statement of profit or loss and other comprehensive income comprises 12 months activities of Department 13 LLC and activity for D13 International from the acquisition date on 18 December 2015. The 30 June 2015 statement of profit or loss and other comprehensive income comprises 12 months of Department 13 LLC activity only.
- **Consolidated Statement of Changes in Equity:** The 30 June 2016 consolidated statement of changes in equity comprises of 12 months activities of Department 13 LLC and activity for D13 International from the acquisition date on 18 December 2015 and transactions with equity holders for the period. The 31 December 2014 statement of changes in equity comprises changes in equity for the 6 month period of Department 13 LLC only.
- **Consolidated Statement of Cash Flows:** The 30 June 2016 consolidated statement of cash flows comprises the cash transactions of Department 13 LLC and activity for D13 International from the acquisition date on 18 December 2015. The 30 June 2015 statement of cash flows comprises of 12 months of Department 13 LLC cash transactions only.

(c) Foreign currency translation

(i) *Functional currency*

Items included in the financial statements of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency').

The functional currency of the Company is Australia dollars (AU\$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

(ii) *Presentation currency*

The financial statements are presented in Australian dollars, which is the Group's presentation currency.

Functional currency balances are translated into the presentation currency using the exchange rates at the balance sheet date. Value differences arising from movements in the exchange rate is recognised in the statement of comprehensive income.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest income is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rates which is the rate that exactly discounts the estimated future cash receipts over the expected future life of the financial asset.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or are recognised directly in equity or in other comprehensive income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

With respect to land and buildings measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(f) Leases

Leases where the lessor retains substantially all of the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight-line basis over the period of the lease.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

(g) Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(i) Trade and other receivables

Trade and other receivables are stated at their cost less an allowance for impairment of receivables.

(j) Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Other receivables are generally due for settlement within 30 days.

Collectability of other receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance made for doubtful debts is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment include financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue).

The amount of the impairment loss is recognised in the Consolidated Statement of Comprehensive Income as 'impairment expenses'. When a trade or other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

(k) Inventory

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(l) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and are usually payable within 30 days of recognition.

(m) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2017 (continued)

(n) Employee benefits

(i) *Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

(ii) *Retirement benefit obligations*

The Group does not maintain a superannuation plan. The Group makes fixed percentage contributions for all Australian resident employees to complying third party superannuation funds and for US resident employees to complying pension funds. The Group's legal or constructive obligation is limited to these contributions.

Contributions to complying third party superannuation funds and pension plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(o) Contributed equity

Costs directly attributable to the issue of new shares are shown as a deduction from the equity as a deduction proceeds net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(p) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

(q) Intangible assets

(i) *Recognition of intangible assets*

Internally developed software

Expenditure on the research phase of projects to develop new customised software and/or hardware is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the Group intends to and has sufficient resources to complete the project;
- the Group has the ability to use or sell the software; and
- the software will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Costs that are directly attributable include employees' (other than Directors') costs incurred on software and hardware development, along with an appropriate portion of relevant overheads and borrowing costs.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

Subsequent measurement

All intangible assets, including capitalised internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing annually.

The following useful lives are applied:

- Software: 5 years

Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing annually.

Subsequent expenditures on the maintenance of computer software and brand names are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

(r) Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by management to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets, excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

Depreciation is calculated over the estimated useful life of the assets as follows:

- Plant and equipment – 1 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised immediately in profit or loss. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(s) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the loss attributable to the owners the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

(t) Operating segments

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.

(u) Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

(v) Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the discharge of liabilities in the normal course of business.

As disclosed in the annual report, the Group incurred a loss after tax of \$6,221,243 and had net cash outflows from operating activities of \$6,123,694 for the year ended 30 June 2017. As at that date the Group had net current assets of \$4,444,889, net assets of \$7,132,991 as well as cash and cash equivalents of \$4,924,890 as at 30 June 2017.

- The Directors believe that there are reasonable grounds that the Group will be able to continue as a going concern, after consideration of the following factors:
- The Group has cash and cash equivalents of \$4,924,890 as at 30 June 2017. As at that date, the Group had net current assets of \$4,444,889 and net assets of \$7,132,991. The Group has performed a cash flow forecast, and determined that it has adequate cash resources in place to fund its operations for the next 12 months, even in the absence of obtaining additional funding.
- The company announced on 31 August 2018 the first shipment of four units of MESMER 1.5. The company is now in the production and sales phase of its first core product. The Board is confident that the group will receive multiple purchase orders for the system over the next financial year, leading to a substantial uplift in revenue in the next 12 months.
- If required, the Group has the ability to continue to raise additional funds on a timely basis pursuant to the Corporations Act 2001. The Group has raised in excess of \$12million in the previous 12 month reporting period and the Directors have no reason to believe that it will not be able to continue to source equity or alternative funding if required.
- The Group has the ability to scale back a significant portion of its development activities if required.

Accordingly, the Directors believe that the Group will be able to continue as a going concern, and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

(w) New, revised or amending Accounting Standards and Interpretations adopted

At the date of authorisation of the financial statements the following standards and interpretations have been applied where applicable;

- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138]
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle
- ASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

(x) New Accounting Standards and Interpretations not yet mandatory or early adopted

The following Standards and Interpretations listed below were on issue but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<p><i>AASB 9 'Financial Instruments' (December 2014)</i></p> <p>AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The directors do not anticipate that the adoption of AASB 9 will have a significant impact on the Group's financial instruments.</p>	1 January 2018	30 June 2019
<p><i>AASB 15 Revenue from Contracts with Customers</i></p> <p>AASB 15:</p> <ul style="list-style-type: none"> Replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations: <ul style="list-style-type: none"> establishes a new revenue recognition model; changes the basis for deciding whether revenue is to be recognised over time or at a point in time; provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing); expands and improves disclosures about revenue; <p>The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2019 includes:</p> <ul style="list-style-type: none"> Change in timing of income recognition depending on performance consideration in the Group's contracts; Change in income measurement for possible variable consideration in the Group's contracts. 	1 January 2018	30 June 2019
<p><i>AASB 16 Leases</i></p> <p>AASB 16:</p> <ul style="list-style-type: none"> Replaces AASB 117 Leases and some lease-related Interpretations; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease-back accounting; largely retains the existing lessor accounting requirements in AASB 117; requires new and different disclosures about leases; <p>When this Standard is first adopted for the year ending 30 June 2020, it is estimated that additional lease liabilities of \$600,000 and a corresponding right to use asset will be required to be accounted for.</p>	1 January 2019	30 June 2020

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

2 Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

License and patent expenses

There is a degree of judgement required in respect of the capitalisation of patent costs and the future commercial application thereof. The Directors have adopted a prudent approach and all patent costs incurred have been expensed.

Capitalised Development Costs

The Group commenced the capitalisation of its product development costs in relation to its MESMER™ Counter Drone Technology in the year under review. There is significant judgement required in relation to the determination of the point at which the product development progresses from the research phase into the development phase. It could possibly have been argued that this may have occurred in the previous financial year however the directors adopted a more prudent approach and commenced the capitalisation of development expenses from 1 July 2016. In addition, judgement is also required around the allocation of expenditure and resources to the development of the product. There is therefore a degree of estimation uncertainty inherent on the costs and resources allocated into the capitalised development costs.

Share based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

	For the Year Ending 30 June 2017	For the Year Ending 30 June 2016
	\$	\$

3 Revenue and other income

Revenue from continuing operations		
Rendering of services	1,001,749	394,501
Sale of goods – parts and accessories	99,402	-
	<u>1,101,151</u>	<u>394,501</u>

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

4 Business Combinations

	Country of Incorporation	Percentage Owned
Department 13 International Ltd (formerly Kunene Resources Limited)	Australia	100%
– Legal parent, accounting subsidiary		

On 18 December 2015, D13 International wholly acquired Department 13 LLC. As noted in note 1(b), the acquisition was treated as a reverse acquisition as per AASB 3 Business Combinations.

	2016 \$
<i>Consideration transferred</i>	
Shares and performance shares issued	2,262,588
	2,262,588

The consideration in a reverse acquisition is deemed to have been incurred by Department 13 LLC in the form of shares and options issues to shareholders of D13 International. The acquisition date fair value of the consideration transferred has been determined by reference to the determined fair value of shares agreed between Department 13 LLC and D13 International shareholders and the number of shares on issue in the D13 International prior to the acquisition.

	2016 \$
<i>Cost of listing</i>	
Deemed purchase consideration (non-cash equity payment)	2,262,588
Net assets acquired in Department 13 International Ltd at the date of acquisition	(800,835)
Deemed fair value of securities issued to advisors	1,248,180
Cost of listing	2,709,933
<i>Assets and liabilities assumed at date of acquisition</i>	
Current assets	51,033
Non-current assets	850,000
Total assets	901,033
Current liabilities	100,198
Total liabilities	100,198
Net assets acquired	800,835
<i>Net cash inflow on acquisition of subsidiaries</i>	
Consideration paid in cash	-
Less: cash and cash equivalent balances acquired	4,562
	4,562

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2017 (continued)

	For the Year Ending 30 June 2017	For the Year Ending 30 June 2016
	\$	\$

5 Income tax expense

The components of tax expense comprise:

Current tax	-	-
Deferred tax	-	-
	-	-

Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	(6,221,243)	(6,759,804)
Tax at the Australian tax rate of 27.5% (2016 - 30%)	(1,710,842)	(2,027,941)

Add tax effect of:

– Other non-allowable items	88,056	820,438
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Less tax effect of:

– Other deductible items	(702,694)	-
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Carried forward tax benefit not recognized in the current year	2,325,480	1,207,503
Total income tax expense	-	-

The Group has carry forward tax losses related to international operations of approximately \$12,593,890 (2016: \$4,137,599), which will generally expire at various dates in the next 20 years. Further, such losses are also subject to change of ownership provisions. Accordingly, some or all of the international losses may be limited in future periods or may expire before being able to be applied to reduce future foreign income tax liabilities.

The benefit of these losses will only be recognised where it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

	As at 30 June 2017	As at 30 June 2016
	\$	\$

6 Cash and cash equivalents

Cash at bank and in hand	4,924,890	2,513,371
	4,924,890	2,513,371

7 Trade and other receivables

CURRENT		
Trade receivables	312,835	68,709
Prepayments	25,983	27,189
Other receivables	112,576	18,645
	451,394	114,543
NON-CURRENT		
Deposits and bonds paid	43,419	44,974
	43,419	44,974
	494,813	159,517

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2017 (continued)

	As at 30 June 2017	As at 30 June 2016
	\$	\$
8 Inventory		
Parts and components	11,795	-
	11,795	-
9 Property, plant and equipment		
	497,640	152,571
Accumulated depreciation	(141,509)	(20,522)
Closing balance	356,131	132,049
Balance at beginning of the year	132,049	6,012
Additions	345,069	141,583
Depreciation	(131,200)	(15,655)
Effect of foreign currency translation	10,213	109
Balance at end of year	356,131	132,049
10 Intangible assets		
Capitalised development costs	2,470,578	-
Accumulated amortisation	(182,026)	-
Closing balance	2,288,552	-
Balance at beginning of the year	-	-
Additions	2,470,578	-
Amortisation	(185,569)	-
Effect of foreign currency translation	3,543	-
Balance at end of year	2,288,552	-
11 Trade and other payables		
CURRENT		
Trade payables	383,365	132,138
Payroll liabilities	353,872	244,579
Other payables	130,953	79,150
Share applications	75,000	80,000
	943,190	535,867

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2017 (continued)

12 Commitments

Operating Lease

The Group leases an office under an operating lease. The future minimum lease payments are as follows:

	Minimum Lease Payments Due			
	Within 1 Year	1-5 Years	After 5 Years	Total
	AUD	AUD	AUD	AUD
30 June 2017	132,949	468,606	-	601,555
30 June 2016	84,328	623,103	-	707,431

Lease expense during the period amounted to \$120,307 (2016: \$74,443) representing the minimum lease payments.

13 Contributed equity

(a) Share capital

	As at 30 June 2017		As at 30 June 2016	
	No. of Shares	\$	No. of Shares	\$
Ordinary shares				
At the beginning of the year	415,503,500	8,581,846	38,903,500	29,258
Issue of shares pursuant to public offer	96,350,322	11,968,859	60,000,000	6,000,000
Issue of shares as deemed consideration to acquire Department 13 International Ltd	-	-	251,600,000	2,262,588
Shares issued to advisors in Department 13 LLC transaction at fair value	-	-	65,000,000	650,000
Shares issued to vendors	633,413	80,000	-	-
Share issue expenses	-	(643,144)	-	(360,000)
	512,487,235	19,987,561	415,503,500	8,581,846

Ordinary shares

Each ordinary shareholder maintains, when present in person or by proxy or by attorney at any general meeting of the Company, the right to cast one vote for each ordinary share held.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2017 (continued)

13 Contributed equity (continued)

(b) Other contributed equity

	As at 30 June 2017		As at 30 June 2016	
	No. of Performance Shares	\$	No. of Performance Shares	\$
Performance shares				
At the beginning of the year	284,000,000	418,320	-	-
Performance issued to settle liabilities prior to the Department 13 LLC transaction	-	-	84,000,000	418,320
Issue of performance shares to acquire Department 13 LLC	-	-	200,000,000	-
Cancellation of performance shares	(284,000,000)	(418,320)	-	-
	-	-	284,000,000	418,320

(c) Options

As at the date of this report, the following options over unissued ordinary shares were on issue:

1. 2,100,000 unlisted options expiring 15 September 2016, exercisable at 40 cents each;
2. 40,000,000 unlisted options expiring 18 December 2020, exercisable at 2.5 cents each.

For details on value of options issued, please refer to note 14.

(d) Performance rights

As at the date of this report, the following performance rights over unissued ordinary shares were on issue:

1. 51,250,000 unlisted performance rights convertible into ordinary shares at 1:1 ratio subject to Milestone completion.

The Performance Rights will vest and convert into ordinary Shares in the event that the 20 trading day VWAP of the Shares as traded on ASX equals or exceeds \$0.05 and one of the following other milestones is achieved within 3 years from the date of issue:

- D13 commences first commercial sales of Drone Defense products;
- D13 enters into a licensing agreement for any of the Technologies with a National or State Government Agency or significant multinational corporation;
- D13 enters into a license agreement for any of the Technologies with a supplier to a National or State government agency;
- D13 enters into a joint venture agreement with a large network or mobile company or a supplier to law enforcement, defence or military;
- the cumulative value of grants provided to D13 equals or exceeds US\$3m; or
- the Company (or a spin off entity of the Company) lists on the NASDAQ, OTC QX or NYSE Markets.

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2017 (continued)

	As at 30 June 2017	As at 30 June 2016
	\$	\$

14 Reserves

Options reserve	179,860	179,860
Foreign currency translation reserve	(431,379)	(100,829)
	(251,519)	69,031
(a) Options reserve		
Balance beginning of financial year	179,860	-
Fair value of options issued during the year	-	179,860
Balance at end of the financial year	179,860	179,860
(b) Foreign currency translation reserve		
Balance beginning of financial year	(110,829)	1,702
Movement	(320,550)	(112,531)
Balance at end of the financial year	(431,379)	(110,829)

15 Segment information

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.

This operating segment is monitored by the Group's chief operating decision makers and strategic decisions are made on the basis of adjusted segment operating results. The chief operating decision makers of the Group are the Chief Executive Officer and Chief Operating Officer. The following tables present certain asset and liability information regarding geographical segments for the years ended 30 June 2017 and 30 June 2016.

Segment performance

	Australia		USA		Total	
	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016
	\$	\$	\$	\$	\$	\$
External sales	-	-	1,101,151	394,501	1,101,151	394,501
Total segment revenue	-	-	1,101,151	394,501	1,101,151	394,501
Segment operating result	(801,929)	(364,509)	(5,102,545)	(6,379,640)	(5,904,474)	(6,744,149)
EBITDA	(801,929)	(364,509)	(5,102,545)	(6,379,640)	(5,904,474)	(6,744,149)
Depreciation and amortisation	-	-	(316,769)	(15,655)	(316,769)	(15,655)
Finance costs	-	-	-	-	-	-
Loss before income tax expense	(801,929)	(364,509)	(5,419,314)	(6,395,295)	(6,221,243)	(6,759,804)
Income tax expense	-	-	-	-	-	-
Loss after income tax expense	(801,929)	(364,509)	(5,419,314)	(6,395,295)	(6,221,243)	(6,759,804)

Assets and liabilities

Segment assets	929,404	391,101	7,146,776	2,413,835	8,076,180	2,804,937
Segment liabilities	210,166	206,791	733,023	329,076	943,190	535,867

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2017 (continued)

16 Share based payments

There were no share based payments made by the Group in the financial year.

17 Reconciliation of loss after income tax to net cash outflow from operating activities

	For the Year Ending 30 June 2017 \$	For the Year Ending 30 June 2016 \$
Loss for the year	(6,221,243)	(6,759,804)
Depreciation expense	131,200	15,655
Amortisation expense	185,569	-
Cost of listing	-	2,709,933
Impairment expense	24,326	47,677
Effects of foreign currency translation	(320,550)	(192,340)
Other non-cash transactions	18,327	-
<i>Change in operating assets and liabilities</i>		
Increase in trade and other receivables	(336,851)	(90,727)
Increase in trade and other payables	407,323	358,588
Increase in trade and other receivables	(11,795)	-
Net cash outflow from operating activities	(6,123,694)	(3,911,018)

18 Financial risk management

(a) Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and inter-entity loans.

The directors' overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The receivable balances are monitored on an ongoing basis. The group's exposure to bad debts is not significant.

There is considerable concentration of credit risk within the Group as it only has a limited number of customers at this stage of its development.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral security.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

The maximum exposure to credit risk at balance date is as follows:

	As at 30 June 2017	As at 30 June 2016
	\$	\$
Cash and cash equivalents	4,924,890	2,513,371
Trade and other receivables	494,813	159,516

Liquidity risk

The Group's policy is to maintain a comfortable level of liquidity through the continual monitoring of cash reserves and the raising of additional capital as required.

Market risk

Foreign exchange risk

Most of the Group's transactions occur in the USA and are predominantly denominated in USD. Cash and cash equivalents used to fund working capital are mainly held in US bank accounts.

The Group is exposed to foreign exchange risk when capital is raised in AUD and then transferred to the US subsidiary. The Group closely monitors foreign currency movements at such times but does not use hedging instruments to manage such risk.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into \$AUD at the closing rate:

	Short Term Exposure	Long Term Exposure
	\$	\$
30 June 2017		
Financial assets	5,376,284	43,419
Financial liabilities	943,190	-
30 June 2016		
Financial assets	2,627,913	44,974
Financial liabilities	304,217	-

The following table illustrates the sensitivity of profit or loss and equity in regards to the Group's financial assets and financial liabilities and the \$USD/\$AUD exchange rate 'all other things being equal'. It assumes a +/- 10% change of the \$AUD/\$USD exchange rate for the year. This percentage has been determined based on the average market volatility in exchange rate in the previous twelve (12) months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the \$AUD had strengthened/weakened against the \$USD by 10% then this would have had the following impact:

	Loss for the Year		Equity	
	+ 10%	-10%	+ 10%	-10%
30 June 2017	492,665	(602,146)	(583,069)	712,638
30 June 2016	197,757	(197,757)	197,757	(197,757)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

(b) Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity as well as management's expectations of the settlement period of all other financial instruments. As such, the amounts may not reconcile to the Statement of Financial Position.

	Weighted average interest rate	Non-interest bearing	Floating interest rate	Fixed interest rate maturing within 1 year	Total
	%	\$	\$	\$	\$
2017					
Financial Assets					
Cash and cash equivalents	0.71%	-	4,924,890	-	4,924,890
Trade and other receivables	-	494,813	-	-	494,813
Total financial assets		494,813	4,924,890	-	5,419,703
Financial Liabilities					
Trade and other payables	-	943,190	-	-	943,190
Total financial liabilities		943,190	-	-	943,190
2016					
Financial Assets					
Cash and cash equivalents	0.75%	-	2,513,371	-	2,513,371
Trade and other receivables	-	159,516	-	-	159,516
Total financial assets		159,516	2,513,371	-	2,672,887
Financial Liabilities					
Trade and other payables	-	517,598	18,269	-	535,867
Total financial liabilities		517,598	18,269	-	535,867

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

	Carrying amount	Contractual cash flow due 1 to 3 months	Contractual cash flow due 3 months to 1 year	Contractual cash flow due 1 to 5 years
	\$	\$	\$	\$
2017				
Financial Assets				
Trade and other receivables	494,813	342,857	-	43,419
Total	494,813	342,857	-	43,419
Financial liabilities				
Trade and other payables	943,190	794,243	-	-
Total	943,190	794,243	-	-
2016				
Financial Assets				
Trade and other receivables	159,517	114,543	-	44,974
Total	159,517	114,543	-	44,974
Financial liabilities				
Trade and other payables	535,867	416,934	-	118,933
Total	535,867	416,934	-	118,933

(c) Net fair values

The net fair value of assets and liabilities approximates their carrying value. No financial assets and liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the Statement of Financial Position and notes to the financial statements.

(d) Sensitivity Analysis

The Company has performed a sensitivity analysis relating to its exposure to foreign currency risk at balance date. The effect on profit or loss and equity as a result of changes in the value of the Australian Dollar to the US Dollar and Euro with all other variables remaining constant, is not expected to be significant.

19 Auditor's remuneration

	For the Year Ended 30 June 2017	For the Year Ended 30 June 2016
	\$	\$
<i>RSM Australia Partners</i>		
– Audit and review services	47,000	25,000
– Other services (Investigating Accountant's Report and tax return preparation)	-	32,000

Department 13 International Ltd
Notes to the Financial Statements
For the Year Ended 30 June 2017 (continued)

20 Earnings per share

	For the Year Ended 30 June 2017 Cents	For the Year Ended 30 June 2016 Cents
From continuing operations		
Basic earnings per share	(1.33)	(2.80)
Diluted earnings per share	(1.33)	(2.80)
Weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
– Basic earnings per share	469,043,752	241,388,432
– Diluted earnings per share	469,043,752	241,388,432
Weighted average number of other securities outstanding not included in diluted EPS calculations as the securities are anti-dilutive in nature	93,350,000	377,350,000

The loss used to calculate earnings per share was \$6,221,243 (2016: \$6,759,804).

21 Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in the Remuneration Report.

(b) Transactions with other related parties

There were no related party transactions aside from those listed in the Remuneration Report.

22 Contingent assets and liabilities

The Group did not have any contingent assets or liabilities at 30 June 2017 (30 June 2016: nil).

23 Events occurring after the balance sheet date

First Shipment of MESMER 1.5

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 in the last week of August with further 1 unit expected to be shipped in September.

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.

Department 13 International Ltd

Notes to the Financial Statements

For the Year Ended 30 June 2017 (continued)

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

- a) The Group's operations in future financial years; or
- b) The results of those operations in future financial years; or
- c) The Group's state of affairs in future financial years.

24 Parent entity disclosures

	2017 \$	2016 \$
Department 13 International Ltd		
Financial position		
Assets		
Total current assets	929,404	391,102
Total non-current assets	23,205,053	13,136,194
Total assets	24,134,457	13,527,296
Liabilities		
Total current liabilities	210,166	206,791
Total liabilities	210,166	206,791
Equity		
Contributed equity	29,926,975	18,521,260
Other contributed equity	-	418,320
Reserves	1,361,731	1,361,731
Accumulated losses	(7,364,415)	(6,980,806)
Total equity	23,924,291	13,320,505
Financial performance		
Loss for the year	(801,929)	(364,509)
Other comprehensive income	-	-
Total comprehensive loss	(801,929)	(364,509)

Department 13 International Ltd

Directors' Declaration

For the Year Ended 30 June 2017

The directors of the Company declare that, in the opinion of the directors:

- (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position and performance of the Company and the Group; and
 - (ii) complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;
- (b) the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.
- (d) there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable;

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors:



Jonathan Hunter
Chief Executive Officer and Chairman

29 September 2017

INDEPENDENT AUDITOR'S REPORT

To the Members of Department 13 International
Limited

Opinion

We have audited the financial report of Department 13 International Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Company is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the Directors of the Company, would be in the same terms if given to the Directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed this matter
<i>The carrying value of internally developed intangible assets</i> <i>Refer to Note 10 in the financial statements</i>	
<p>As at 30 June 2017, the Company has incurred \$2.3m of capitalised development costs as part of its development of its Mesmer Counter Drone Technology. The costs in relation to the development of this internally generated intangible assets are reflected in non-current assets at a carrying value of \$2,288,552.</p> <p>The capitalised development costs are considered to be a Key Audit Matter due to the judgment required in relation to the point at which capitalisation of development costs should commence, as well as the nature of the costs that can be capitalised into the carrying value of these intangible assets.</p> <p>In addition to the matters referred to above consideration needs to be given as to whether there is any impairment risk with regards to the carrying value of these intangible assets.</p>	<p>Our audit procedures in relation to the carrying value of internally developed intangible assets included:</p> <ul style="list-style-type: none"> • Obtained an understanding of the nature of the company's development activities, and critically reviewing management's assessment that they meet the criteria for recognition as an intangible asset set out in AASB 138 <i>Intangible Assets</i>. • Obtained the calculations and supporting workings used to quantify the capitalised development costs and performed substantive testing on a sample basis to obtain assurance that the costs incurred were directly related to the development of the Mesmer Technology. • Evaluated the appropriateness of the related disclosures in respect of the capitalised development costs including the judgments and estimation uncertainty in relation thereto.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information, and accordingly, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001, and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance

with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Department 13 International Limited., for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in blue ink that reads 'RSM'.

RSM Australia Partners

A handwritten signature in blue ink that reads 'G N Sherwood' with 'GNS' written to the right.

G N Sherwood
Partner

Sydney, NSW
Date: 29 September 2017

Department 13 International Ltd

Shareholder Information

Spread of Shareholders

At 22 September 2017, there were 1,694 holders of Shares. The shareholders were entitled to one vote for each Share held.

Spread of Holdings	No. of Holders	No. of Units	% of Total Issued Capital
1 – 1,000	72	2,385	0.00
1,001 – 5,000	154	642,993	0.12
5,001 – 10,000	343	2,997,222	0.57
10,001 – 100,000	773	31,735,084	6.06
100,001 and over	352	488,359,551	93.25
Total	1,694	523,737,235	100

There were 188 shareholders holding less than a marketable parcel of 455,378 shares as at 22 September 2017.

Substantial Shareholders

The Company's register of substantial shareholders recorded the information as at 22 September 2017.

Top 20 Holdings as at 22 September 2017		
Holder Name	Balance at 22 September 2017	%
JONATHAN ANDREW HUNTER	41,600,000	7.94
ROBI SEN	40,000,000	7.64
ROGER CHARLES DAVIES	33,200,000	6.34
PAUL MCCARTHY	30,800,000	5.88
CITICORP NOMINEES PTY LIMITED	22,676,371	4.33
BRYAN HALFPAP	21,360,000	4.08
STEVEN J SHATTIL	20,800,000	3.97
BEN SMITH	20,360,000	3.89
MRS GEORGIA SUSAN CLARK <ELLIOTT LEWIS CLARK A/C>	14,625,000	2.79
MRS GEORGIA SUSAN CLARK <LUCY AMELIA CLARK A/C>	14,625,000	2.79
GAVIN REZOS	10,250,000	1.96
BAYARD WILLIAM JOHN REZOS <GLENCONNER>	10,000,000	1.91
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	8,585,608	1.64
FARRIS CORPORATION PTY LTD <THE PETER FARRIS SUPER A/C>	5,000,000	0.95
DR STUART LLOYD PHILLIPS & MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/FUND A/C>	4,775,000	0.91
JINDABYNE CAPITAL PTY LTD <PROVIDENCE EQUITY A/C>	4,019,433	0.77
UBS NOMINEES PTY LTD	3,741,709	0.71
J P MORGAN NOMINEES AUSTRALIA LIMITED	3,553,774	0.68
DR STUART LLOYD PHILLIPS & MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/F A/C>	3,100,000	0.59
KATHLEEN KIERNAN	3,000,000	0.57
AL TELLER	3,000,000	0.57
METIS PTY LTD	3,000,000	0.57
GULA TECH ADVENTURES INC	2,676,660	0.51
TOTAL	324,748,555	62.01