

Appendix 4C & Trading Update

SYDNEY, NSW and COLUMBIA, MD USA – Department 13 International Limited (ASX:D13) has today lodged its Appendix 4C and provides the following update on cash flow for the quarter, an update on trading activities and the outlook and strategy for FY'19.

Q1 FY'19 Overview

The Company recorded \$0.2m in cash receipts for the quarter. The Company's cash balance at the end of the quarter was \$2.4m.

MESMER™ sales opportunities continue to be generated through ongoing global demonstrations conducted by D13's sales team. More broadly the Company has made substantial progress on multiple fronts. During the quarter D13:

- Closed Tranche 2 of its \$12m convertible note, delivering a further \$5m in funding
- Appointed Dr. Miles Jakeman as a director to the Board
- Showcased MESMER™'s ability to integrate with globally recognized military vehicle, the Thales Bushmaster, at Land Forces 2018
- Committed to an ongoing MOU with Thales Australia and EPE to deliver a fully commercialized version of MESMER™ within the Bushmaster
- Expanded our distribution network into the African continent with South African aerospace company Skydrone
- Undertook demonstrations in several Middle Eastern countries, Latin America, Asia-Pacific and the United States

Post balance date D13 has:

- Appointed Dr. Miles Jakeman as Chairman of the Board
- Secured an exclusive partnership with Counter-Unmanned Aerial Systems ("C-UAS") Intellectual Property specialist XiDrone, providing the U.S. and European patents for integrated multi-sensor, counter drone technology to be integrated into MESMER™ and licensed to other participants within the C-UAS industry
- Undertaken demonstrations in South Korea with both potential government and commercial customers

Outlook & Strategy

D13 is seeing strong growth, with its sales funnel more than doubling from May to October. The Company maintains confidence that these will result in purchase orders in the near future, as multiple opportunities progress towards the latter phases of D13's sales process.

D13 continues to expand the integration of MESMER™ into other C-UAS solutions, pursue licensing opportunities for the MESMER™ software in addition to ongoing licensing of its already unparalleled C-UAS IP portfolio.

As stated within its annual report, released 28 September 2018, D13s near term strategic objectives include:

- Further development of the Company's IP position within the Counter-UAS space, and implementing the Company's licensing strategy to monetize this position;
- Continued advancement of MESMER™'s capabilities, including an expansion of the threat library, increased mitigation capacity and additional features for ease of use, deployment, and integration with other systems;
- Further refinement of the MESMER™ hardware set;
- Improvements to the existing supply chain and manufacturing process; and
- An increased focus upon software licensing with third parties, such as the Thales Bushmaster and other similar opportunities.

Department 13 CEO, Jonathan Hunter, commented: *"The progress made within this period sees the Company make further steps in developing a platform to leverage our industry leading software and extensive intellectual property portfolio. We look forward to building upon this success in the current period and executing upon our strategy to becoming the preeminent global C-UAS technology company."*

- ENDS -

For more information, contact

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About Department 13

Based in Maryland, Department 13 (D13) was founded in 2010 by a team of former military operators, scientists and engineers who apply proprietary innovative advanced technology to emerging requirements. D13 is developing cutting-edge software and communication systems that have the potential to transform the networking and communication fields as well as current applications in drone defense, mobile phone IT security and secure enhanced Android phone systems. D13 is engaged with multiple counter UAS projects to provide strategic solutions for civil, military and commercial security requirements. D13 has a substantial intellectual property portfolio covering wireless protocol manipulation and communication networking software with applications in drone defense, local area and wide area cellular communications and networking, enhanced data bandwidth for all digital communications, cyber security for mobile devices and sophisticated RF technology applications (radiometrics). For more information about D13, please visit www.department13.com or follow us on Twitter (@D13ASX), LinkedIn and YouTube.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Department 13 International Ltd

ABN

36 155 396 893

Quarter ended ("current quarter")

30 September 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	202	202
1.2 Payments for		
(a) research and development	(274)	(274)
(b) product manufacturing and operating costs	(495)	(495)
(c) advertising and marketing	(111)	(111)
(d) leased assets	-	-
(e) staff costs	(666)	(666)
(f) administration and corporate costs	(490)	(490)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	(275)	(275)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (GST received)	12	12
1.9 Net cash from / (used in) operating activities	(2,096)	(2,096)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(137)	(137)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Development of intellectual property	(679)	(679)
2.6	Net cash from / (used in) investing activities	(816)	(816)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	5,000	5,000
3.3	Proceeds from exercise of share options	33	33
3.4	Transaction costs related to issues of shares, convertible notes or options	(466)	(466)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	4,567	4,567

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	747	747
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,096)	(2,096)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(816)	(816)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,567	4,567
4.5	Effect of movement in exchange rates on cash held	12	12
4.6	Cash and cash equivalents at end of quarter	2,414	2,414

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,349	678
5.2	Call deposits	65	69
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter	2,414	747

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	181
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

N/A

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	187
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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

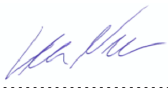
8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (convertible notes issued)	12,000	12,000
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	275
9.2 Product manufacturing and operating costs	375
9.3 Advertising and marketing	100
9.4 Leased assets	
9.5 Staff costs	650
9.6 Administration and corporate costs	500
9.7 Other (provide details if material)	
9.8 Total estimated cash outflows	1,900

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

Compliance statement

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

Sign here:  Date: 31 October 2018
(Director/Company Secretary)

Print name: Laura Newell

Notes

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