

Chairman and CEO's Address to Shareholders

Chairman's Address

Introduction

I am conscious that I am a recent arrival at D13 and this is my first address as chairman. Moreover, shareholders are particularly keen to understand what the company's strategy and direction are, as well as how it is progressing. To do this, I will firstly outline what the company has achieved this year and, then, I will outline our plans for the coming year.

FY18 achievements

This year has seen a number of "firsts", including:

- The company expanded its already extensive IP portfolio, including through in-house development, as well as exclusivity agreements with other companies, such as Xi-Drone. Many of these patents are the first filed in their respective fields and are referenced by thousands of patents subsequently filed by leaders of the wireless and telecommunications industries. Whilst yet to be leveraged commercially, this IP and solutions portfolio provides multiple opportunities, which I will discuss in more detail shortly.
- Second, after a period of R&D, the company has successfully launched MESMER™, which is a software counter drone solution uniquely positioned in the market as it is:
 - Non-jamming, Non-kinetic – making it safe to operate in sensitive environments
 - A Full spectrum solution – enabling Detection, Identification & Safe Mitigation
 - Fully patented and non-IP infringing
- Third, whilst sales have been slower than expected, D13 has had its first cashflow positive quarter this year and its sales pipeline continues to build. We are also seeing successful sales into new markets, such as South Korea. I need to digress here and note that sales have been slower than expected for a number of reasons, including because of:
 - The slow nature of the procurement process for large-scale enterprises and government agencies;
 - The lack of regulation regarding drone management in many Western countries (and what agencies can and cannot do in relation to countering drone threats);
 - The high price tag that has accompanied a typical MESMER™ hardware sale; and,
 - A heavy impost on D13 in relation to customers wanting to conduct demonstrations and trials before committing to purchases.
- Fourth, we have focused on finding the right channel partners with access to material opportunities. This is still a work in progress, but refinement here has meant that our pipeline is not only larger than the previous year, but also more accurate.
- Lastly, we have continued to improve our governance and ASX reporting procedures and strengthened our back-end through the appointment of an experienced Chief Financial Officer.

These 'firsts' build on what D13 has been undertaking during the past few years to develop and commercialise a highly valuable counter-drone capability.

FY19 Focus

At its core, D13 is not just a counter-drone company: It is a communications and software engineering company enabling and protecting next generation technologies. Going forward and in order to provide a better return for shareholders, our strategy needs to focus more on our IP portfolio and software assets. So, rather than our sales funnel consisting solely of MESMER™ hardware sales opportunities, we will seek instead to broaden this by also:

- Licensing IP for our new products, such as our enhanced battery life solution that uses a Single Carrier Frequency-Division Multiple Access (SC-FDMA) scheme to extend battery life in portable rechargeable devices like drones and smartphones (using a single carrier structure means the transmit signal of SC-FDMA has a lower peak-to-average power ratio);
- Selling MESMER™ as a software solution (and have other companies undertake the manufacturing pertinent to their respective market applications);
- Extending MESMER™ market opportunities into broader multi-sensor UAV management platforms which cover air, maritime and land environments;
- Developing additional capabilities for MESMER™, such as backpack and mobile systems;
- Greater patent protection and/or definitive licensing arrangements with network carriers that leverage D13's telecommunications-related patents;
- Reviewing our costs structures with a view to minimising costs without impacting capability too adversely. Just on that, I note that D13 is managing its cash burn carefully, including having removed a C-suite member, reduced the CEO's salary, waived board fee payments, provided added incentives for early sales/deliveries, cancelled discretionary travel, and delayed non-essential activities; and,
- Last but not least, enhancing our marketing and investor relations in support of the above and the company's value on the listed exchange.

The foundations for this pivot are already in place, but the company requires a capital injection in order to sustain itself until sales are sufficiently mature.

To that end, you will note that the company has recently commenced a capital raising. Specifically, D13 has written to its Convertible Note holders seeking permission to raise approximately AUD\$3 million to AUD\$5 million under the same conditions as the existing Convertible Notes. We have done this because, under the terms and conditions of these Convertible Notes, the company requires:

- Note holder permission to undertake any capital raising;
- 75% or more of the Note holders need to agree; and
- Support with waiving any current actions available to them (in terms of conversions or redemptions) to enable a successful raise.

Ostensibly, if this raising is successful, then the company will actively pursue commercialising its IP so as to return value to shareholders. If the raising falls short or is unsuccessful, then directors will be forced to examine other measures as the company's cash balance will support neither its current activities nor the proposed pivot.

CEO's Address

In terms of operations and financial results for FY18, I am pleased to advise that:

- After 7 years, D13 has commercialised MESMER™, its first core technology. MESMER™ is a counter-drone product that detects, identifies and mitigates drones. MESMER™ is a non-jamming, non-kinetic Counter-UAS technology. Using a combination of Radio Frequency detection and protocol manipulation, MESMER™ can automatically identify, control and land a drone within a +4km radius. MESMER™ is the only commercialized technology that uses protocol manipulation to safely control drones. MESMER's™ ability to safely control a drone is imperative in most situations and delivers a substantial competitive advantage.
- Pleasingly, MESMER's™ quality and uniqueness were recognised when, in June this year, it was the Award Winner at the SOFWERXs Thunder Drone event. This event is in support of US Special Operations Command, and the award speaks highly of how well our team has done to produce relevant technologies for key customers.
- Following this commercialisation, the company's revenue increased 147% to \$2,714,468.
- The net loss after tax for the year was \$7,248,664 (2017 loss: \$6,221,243).
- We also entered into a manufacturing partnership and a number of distribution agreements.
- As noted by the Chair, we also acquired and developed a number of important patents relating to our technologies, including those from "Carrier Interferometry" (CI) for US \$1.5m. The CI Patent Portfolio contains early disclosures (2002) of software-defined radios and advanced digital signal processing. The radios and signal processing are used with detection, signal separation, and identification, all of which are key technologies that D13 is using for drone detection and mitigation.
- The acquired CI portfolio enables D13 to implement spectral partitioning, blind signal analysis, and distributed software analysis technology into MESMER™ and future-MESMER™ systems. The acquisition will enable D13 to make broad patent claims that will be key to the Counter-UAS market, and which will cover almost all future Counter-UAS products.
- The pipeline for our sales has also continued to improve, albeit the sales process has been slower than expected.

In closing, I would like to express my thanks to the Board, management and staff of D13 who have all contributed to our progress to date. Thank you.

- ENDS -

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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

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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.