

Quarterly Activities Report for the period ended 30 September 2016

Department 13 International Ltd (ASX : D13) (“D13” or “the Company”) provides an update on activities and cash flows for the period ended 30 September 2016.

The cash flows during the quarter ended 30 September 2016 included increased expenditures relating to:

- Accelerated procurement and fabrication of initial MESMER™ prototypes for field testing and demonstrations
- Accelerated R&D for development of additional drone mitigation capabilities

The Company’s key achievements included:

- Launch of MESMER-EX, a new Drone Intelligence and Forensic Service for law enforcement to examine drones used in criminal activity
- Agreement with Parsons for US\$245 million on US Naval Research Laboratory ITD
- Appointment of Phoenix Group as Department 13’s Latin America Distributor
- Successful completion of an oversubscribed A\$6.5 million capital raising
- MESMER surpassed expectations at Black Dart & MITRE challenge, validating Department 13’s position as a leader in counter-drone technology

The Company participated in the following high profile demonstration and technology evaluation events with major defence leaders:

- MESMER™ showcased as a finalist in the Counter-UAS MITRE challenge in Virginia
- MESMER™ live capability demonstration in U.S. Department of Defense Black Dart 2016 Counter-UAS event in Florida
- Participation in the White House Unmanned Aircraft Systems (UAS) working group
- Australian Defense Forces Future Land Forces Conference

The past quarter was a significant one for Department 13 with considerable progress achieved toward the commercial launch of the company’s flagship counter-drone solution.

Outside of the counter-drone technology area, the Company was appointed as a sub-contractor to Parsons for its five year US\$245 million contract with the US Navy Research Laboratory. Parsons will leverage Department 13’s patented technologies in the fields of

communications, networking and cybersecurity and first revenues from the agreement are expected in Q1 2017.

The Company's focus over the period was the demonstration of its MESMER™ technology to a variety of US government agencies and international security organisations, all charged with procuring drone defense solutions. Department 13 participated in a number of high profile events, such as the MITRE Challenge in August, held in Quantico, Virginia, and at the U.S. Department of Defense Black Dart exercise held at Elgin Air Force Base in Florida during September. MESMER™ surpassed expectations at both events, validating Department 13's position as a leader in counter-drone technology.

The oversubscribed A\$6.5 million placement the Company completed in July helped accelerate the production of its initial MESMER™ prototype systems, and expanding MESMER™ drone mitigation capabilities ahead of the product's commercial launch in January 2017.

Department 13 also continued the expansion of its distribution network by appointing Phoenix Group as its Latin America distributor for MESMER™. The Phoenix Group is a security company that provides world class security services to transportation companies, specifically in port security. This builds upon Department 13's agreements with international distributors Booz Allen Hamilton in the US, IMSL in the UK and Europe and EPE in Australia.

The Company also joined the EDGE Innovation Network comprising technology and product companies to enhance the delivery of new technologies to military and law enforcement agencies. Department 13's involvement will help to expand awareness and deployment of its MESMER™ counter drone solution.

Post the period end, Department 13 was granted a new U.S. patent on technology that enhances the Company's drone defense capabilities and advanced communication networking. Department 13 has now 12 granted patents and 22 patent applications in its IP portfolio which will provide significant commercial licensing opportunities.

Department 13's CEO Jonathan Hunter commented:

"We have made substantial progress over the last quarter. The successful validation of our MESMER™ technology with a range of potential tier one customers in defense and security ensures we are on track for commercial launch in January 2017."

"We are fully funded to accelerate the commercial delivery of our MESMER version 1 counter drone solution, and we expect first revenues as part of our contribution to Parsons' multi-million contract with the US Navy Research Laboratory early next year."

"Each of these milestones highlight the growing awareness and demand for our solutions, both in drone defense and across our portfolio of patented IP, and position the company for significant near term cash flow opportunities."

Pursuant to Listing Rule 4.10.19, in the period from the Group's admission date on 13 January 2016 to the reporting date of the 2016 Annual Report and for the period ended 30 September 2016, the Group's use of cash and cash equivalents have been consistent with the established business objectives at the date of admission.

-ENDS-

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About Department 13 International Ltd

Department 13 was founded in Virginia in 2010 by a team of former military operators, scientists and engineers who apply proprietary innovative advanced technology to emerging requirements.

D13 is developing cutting edge software and communication systems that have the potential to transform the networking and communication fields as well as current applications in drone defense, mobile phone IT security and secure enhanced android phone systems.

D13 has ten patents and fourteen patent applications in the development of wireless protocol manipulation and communication networking software with applications in:

- Drone defense
- Local area and wide area cellular communications and networking
- Enhanced data bandwidth for all digital communications
- Cyber security for mobile devices
- Sophisticated applications in the RF environment (Radiometrics).

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 2016

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	17	17
1.2 Payments for		
(a) research and development	(851)	(851)
(b) product manufacturing and operating costs	(24)	(24)
(c) advertising and marketing	(123)	(123)
(d) leased assets	-	-
(e) staff costs	(370)	(370)
(f) administration and corporate costs	(547)	(547)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	5
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (GST received)	19	19
1.9 Net cash from / (used in) operating activities	(1,874)	(1,874)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(171)	(171)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(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	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(171)	(171)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	6,500	6,500
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(387)	(387)
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	6,113	6,113

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	2,513	2,513
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,874)	(1,874)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(171)	(171)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,113	6,113

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(111)	(111)
4.6	Cash and cash equivalents at end of quarter	6,470	6,470

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	1,092	423
5.2	Call deposits	5,378	2,090
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,470	2,513

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

**Current quarter
\$A'000**

104

-

N/A

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 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

**Current quarter
\$A'000**

168

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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 (please specify)	-	-
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.		

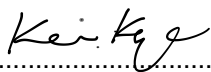
N/A

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	916
9.2 Product manufacturing and operating costs	170
9.3 Advertising and marketing	226
9.4 Leased assets	-
9.5 Staff costs	538
9.6 Administration and corporate costs	458
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	2,308

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 2016
(Director/Company secretary)

Print name: KEVIN KYE
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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.