



DRONESHIELD

Quarterly Report

For the Quarter Ended
31 December 2016



*Image: Swiss Police deploys DroneGun at the
2017 World Economic Forum in Davos*

DroneShield Limited (ASX:DRO)

ASX Release

ABN 26 608 915 859

30 January 2017

DroneShield Ltd (ASX:DRO) ("DroneShield" or the "Company") is pleased to provide the following update on its activities during the three-month period ended 31 December 2016 and its Appendix 4C quarterly cash flow report for the same period.

Key Developments

DroneShield made significant progress in the quarter to December 31, 2016. The key developments included the following.

- In late November 2016, DroneShield launched DroneGun, a tactical drone jammer, which added an effective drone countermeasure to DroneShield's suite of drone detection products. This new product has positioned DroneShield as the only company in the world offering both drone detection and handheld rifle-style tactical drone countermeasures.
- The media and potential customers expressed substantial interest in DroneGun, and DroneShield achieved the first full-priced sale within days of the product release. Hundreds of media articles on DroneShield and DroneGun were published globally, and DroneShield's promotional video of the product received over 1.3 million views within the first month.

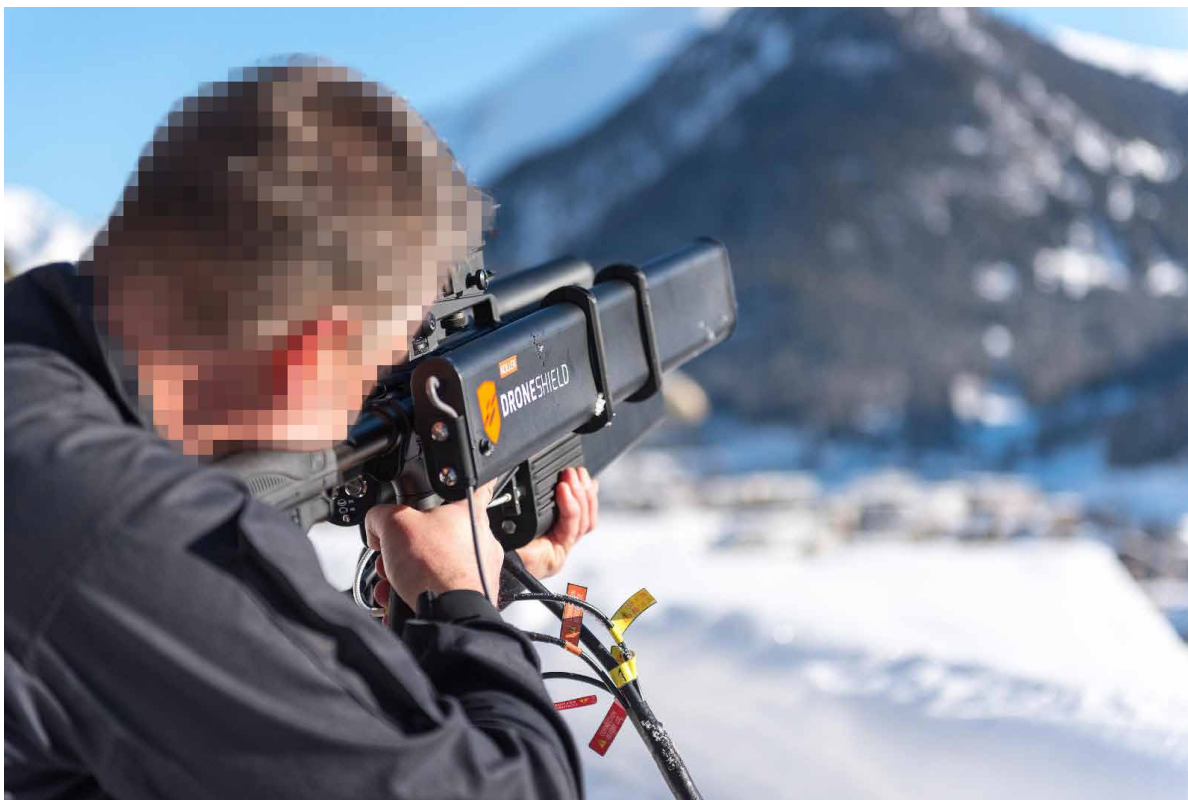


Image: DroneGun deployed at the World Economic Forum in Davos in 2017 by the Swiss Police

- In December 2016, the Company took the decision to refocus its marketing, sales and business development efforts on the rapidly growing government, commercial and civil infrastructure drone security markets outside of Australia, with particular attention toward the United States. This refocus saw the Sydney-based CEO and Managing Director James Walker resign and, subsequently to quarter end, the Board appointing Oleg Vornik, who had been the Chief Financial Officer of the Company for over a year, the CEO and Managing Director of the Company.

- In late December 2016, DroneShield achieved high profile, full-price sales of its detection systems including a substantial sale to the office of Prime Minister of Republic of Turkey, and a sale to a national security agency of a country in Asia.



Image: DroneShield's Long Range product

- The overall government and civil infrastructure demand for drone detection and mitigation products continued to increase, against the backdrop of nearly daily barrage of news about drone threats.



Image: Footage of what is reported to be ISIS' world-first drone bomber



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- DroneShield continued its engagement with key decision-makers and regulators, utilizing, among other things, its high-profile advisory board.
- The calibre of DroneShield's Advisory Board was underscored by the fact that its Advisory Board member Rear Admiral Jay Cohen US Navy (Ret), the former Chief of Naval Research (Chief Technology Officer) of the United States Department of the Navy, and later United States Department of Homeland Security (DHS) Undersecretary for Science and Technology, was reported by the press as having met (in his personal capacity, unrelated to the Company) with the then President-Elect Donald Trump and his transition team at Trump Tower in New York City on 2 December 2016.

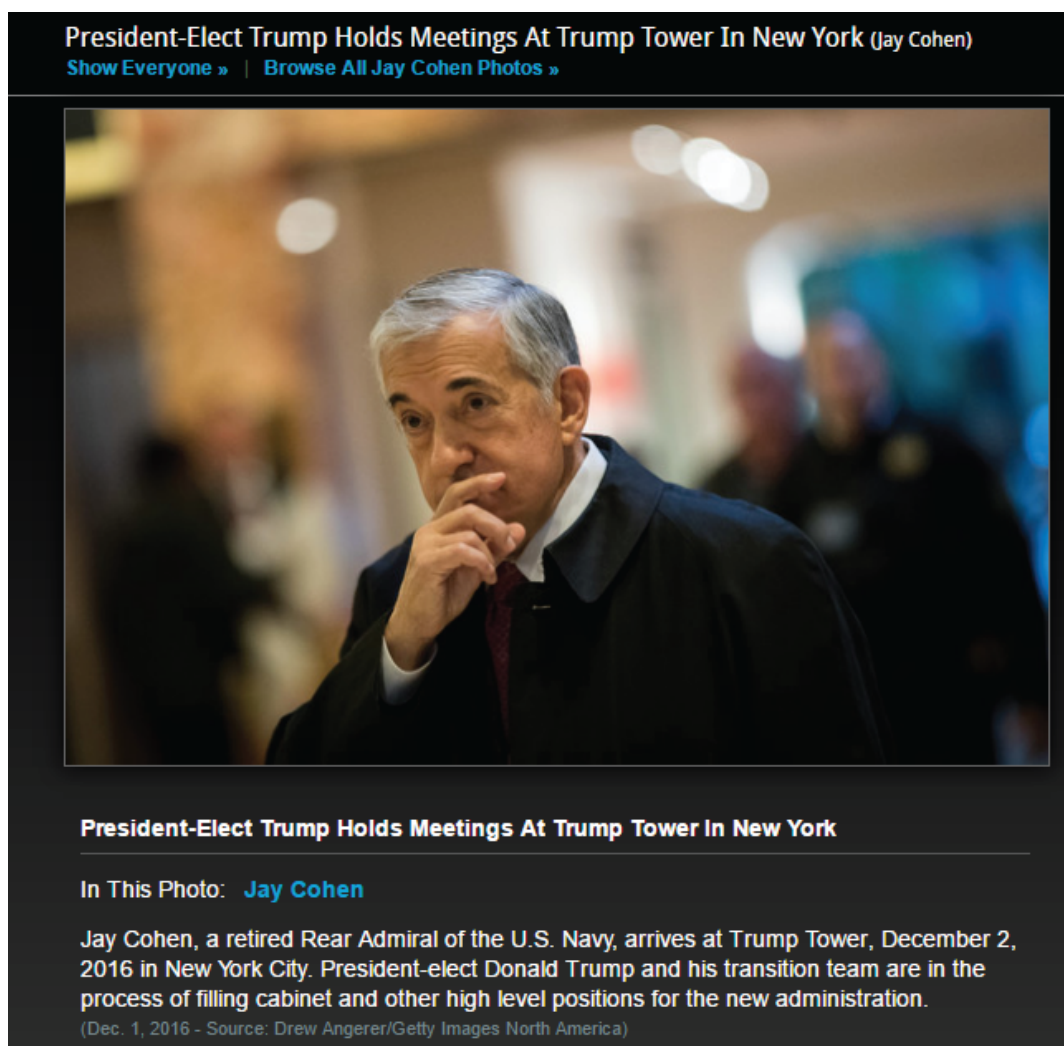


Image: Admiral Jay Cohen (Ret) (DroneShield Advisory Board) at Trump Tower in New York awaiting meeting President-Elect Donald Trump

- Shortly after the quarter end, the Company entered into a partnership with a government organization headquartered in a U.S. mid-Atlantic state. Under the partnership, the U.S. government organization made a military training area available for demonstrations of DroneShield's products to U.S. government agencies at no cost, and is facilitating such demonstrations, while DroneShield made DroneGun available to the U.S. government organization for use at that military training area at no cost.



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- Among hundreds of press reports on DroneShield was a report on NBC News' Today show, made the day before President Trump's inauguration, which described the danger that drones could pose to crowds and dignitaries at the inauguration, profiled DroneShield, and referenced the fact that the United States Secret Service had deployed secret drone countermeasures at the inauguration.



Image: DroneGun as appearing on NBC's Today show

- The Company continued to execute on its strategy along a number of avenues. These included a number of demonstrations to potential customers at a number of venues.
- Consistent with the requirements of potential end-users, DroneShield continued its product development activities, commencing the development of DroneSentry, an anti-swarming product shortly after quarter end.

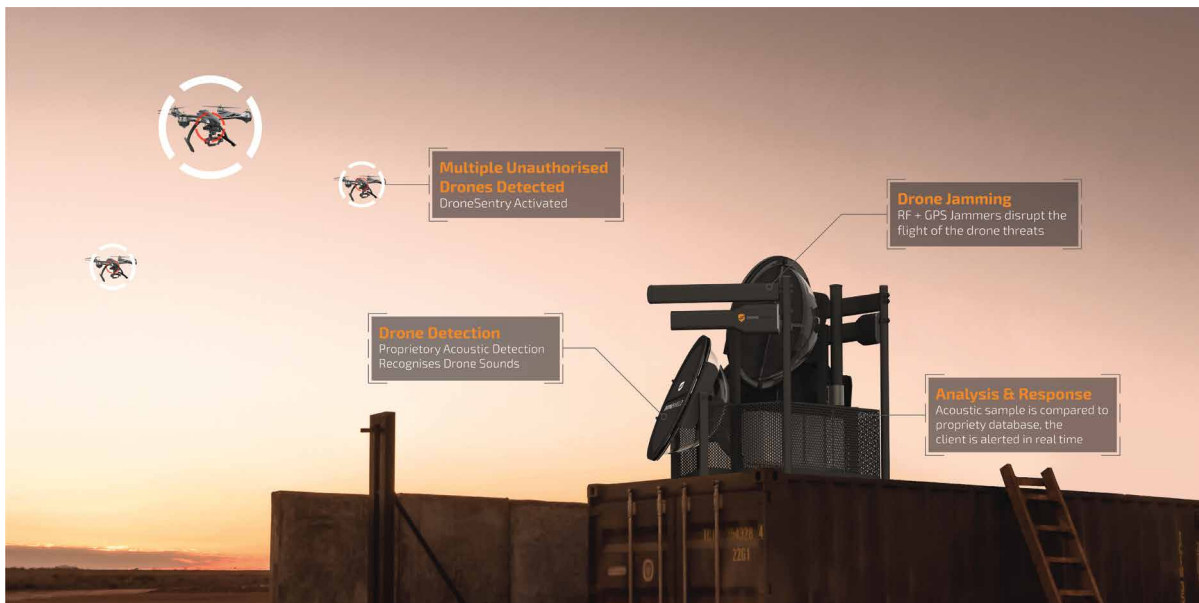


Image: DroneShield's DroneSentry product (artist's illustration)

- DroneShield made further staff appointments in sales, marketing and technology areas.

- DroneShield's in-house and distributor salesforce continued to progress a large number of opportunities, with several orders in advanced stages.

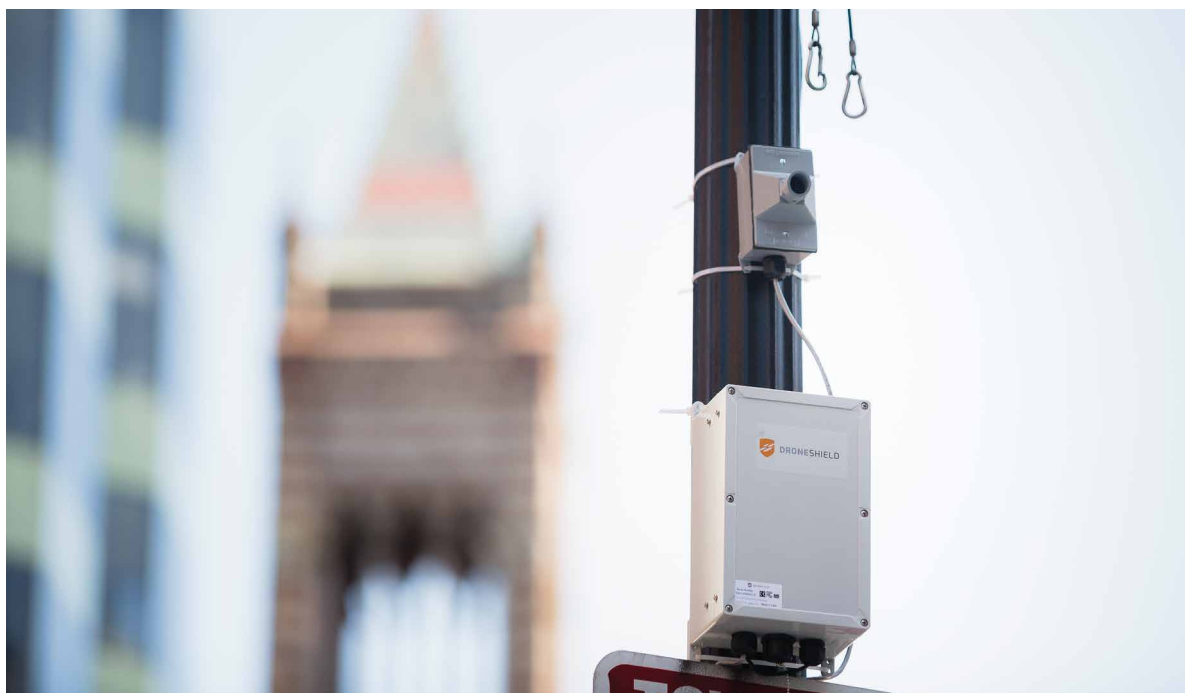


Image: DroneShield's omnidirectional product deployed at the 2016 Boston Marathon

Environment

The overall global demand for drone detection and mitigation products continued to increase during the quarter, against the backdrop of nearly daily barrage of news about drone threats. Dozens of high profile incidents and concerns took place during the course of the quarter and subsequent to its end. One can read about some of these at <https://www.droneshield.com/press-coverage> and <https://twitter.com/DroneShield> Examples of recent relevant incidents and concerns, public statements by officials, and media coverage about relevant issues included the following.

- ISIS released a video of its remote-controlled drone dropping a bomb.



Image: ISIS video reporting a weaponised drone



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- An ISIS drone strapped with a bomb (a “flying IED”) exploded in Iraq, killing two Kurdish soldiers and leaving two French soldiers wounded.
- Additionally, footage of ISIS suicide bombings shot by drones from the sky (as these attacks occurred) was widely circulated on the Internet.



Image: ISIS video of car bomb attacks shot from a drone

- It was reported that an Australian citizen was arrested in Turkey on charges of being the head of an ISIS plot to use explosive-laden drones to carry out remote attacks.
- London airports alone were reported to have had 36 drone incidents with ten Category A incidents (near misses) in 2016.
- The US Army was reported as having identified a critical gap in its ability to face swarms of drones. General Daniel B. Allen, the US Army's Chief of Staff, was reported as having stated that defeating drone swarm attacks will be essential in the future.
- Consistent with the overall direction of the Western military efforts, the Iranian military announced its own drone jamming weapon.



Image: Iranian military drone jammer (this is not DroneShield's product)



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Market Position

While several companies have announced anti-drone product launches in the recent months, DroneShield continues to maintain a substantial lead in the drone security market for the following reasons.

- Most of the purported anti-drone products remain “vaporware” – products that have not progressed beyond an idea or a prototype. DroneShield is shipping products.
- Recently announced product launches are just that – product launches. DroneShield launched its currently available products previously and has had a substantial marketing and distribution network lead in the industry.
- DroneShield is one of the very few providers of both detection and countermeasures. Most purportedly competing products, prototypes and ideas provide one but not the other. The effectiveness of detection is limited without countermeasures, and countermeasures cannot be deployed in most circumstances without drones having first been detected.
- DroneShield’s products consistently beat the limited competition in head to head trials in technical and operational terms (such as range, effectiveness, low profile, convenience, deployability, failure and false alarm rates, and others).
- DroneShield’s customers and potential customers favor the effectiveness of DroneShield’s products. Its products are not time of day or season-dependent, do not rely on line of sight or visibility, are passive to the surrounding environment, and cover most major commercial drone models (including frequency hoppers).
- Many defence-related products developed in the United States are subject to U.S. export restrictions. DroneShield’s products are not.
- DroneShield’s products are materially cheaper than most competing detection products that are being marketed and are in fact capable of being delivered (particularly, systems being marketed by larger defence contractors). DroneShield’s subscription pricing model further reduces a customer’s capital outlay upfront and provides an additional incentive to adopt the product.
- As DroneShield is an Australian company with meaningful U.S. operations, its origin is a positive factor in the decision-making process by allied country users, especially government users.



Image: DroneShield's omnidirectional product deployed at the 2016 Boston Marathon



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Cash Balance

As at 31 December 2016, DroneShield had a combined cash balance of \$3,487,077 as outlined in the accompanying Appendix 4C.

Further Information

Oleg Vornik
CEO and Managing Director
Email: oleg.vornik@dronesield.com
Tel: +61 2 9995 7280

About DroneShield Limited

Based in Sydney and Virginia, DroneShield is a worldwide leader in drone security technology. The Company has developed the pre-eminent drone security solution that protects people, organisations and critical infrastructure from intrusion from drones. Its leadership brings world-class expertise in engineering and physics, combined with deep experience in defence, intelligence, and aerospace.

ENDS



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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

DRONESHIELD LIMITED

ABN

26 608 915 859

Quarter ended ("current quarter")

31 DECEMBER 2016

Consolidated statement of cash flows	Current quarter \$A	Full Year (12 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	130,395	191,758
1.2 Payments for		
(a) research and development	(289,849)	(535,945)
(b) product manufacturing and operating costs	(18,633)	(213,384)
(c) advertising and marketing	(74,626)	(233,427)
(d) leased assets	-	-
(e) staff costs	(487,978)	(1,126,439)
(f) administration and corporate costs	(311,556)	(1,038,900)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	23,875	43,023
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	(1,328)
1.9 Net cash from / (used in) operating activities	(1,028,371)	(2,979,284)

Consolidated statement of cash flows		Current quarter \$A	Full Year (12 months) \$A
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(22,340)	(36,385)
	(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	Other (provide details if material)	-	(1,680)
2.6	Net cash from / (used in) investing activities	(22,340)	(38,515)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	7,000,000
3.2	Proceeds from issue of convertible notes	-	554,324
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(615,752)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(178,460)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter \$A	Full Year (12 months) \$A
3.9	Other (provide details if material)	93	(586,430)
3.10	Net cash from / (used in) financing activities	93	6,173,681

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	4,546,518	378,448
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,028,371)	(2,979,284)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(22,340)	(38,515)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	93	6,173,681
4.5	Effect of movement in exchange rates on cash held	1,178	(37,568)
4.6	Cash and cash equivalents at end of quarter	3,497,077	3,497,077

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	Previous quarter \$A
5.1	Bank balances	997,077	1,546,518
5.2	Call deposits	2,500,000	3,000,000
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)	3,497,077	4,546,518

6.	Payments to directors of the entity and their associates	Current quarter \$A
6.1	Aggregate amount of payments to these parties included in item 1.2	130,479
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	

Salary and superannuation payments to James Walker (Managing Director), payments to Azalea Limited in consideration for director fees for Winton Willesee, Company Secretary fees and utilisation of the registered office, and director fees for Peter James and Samantha Ravich.

7.	Payments to related entities of the entity and their associates	Current quarter \$A
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	

None

8.	Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1	Loan facilities	nil	nil
8.2	Credit standby arrangements	nil	nil
8.3	Other (please specify)	nil	nil
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.		

None

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	114,500
9.2 Product manufacturing and operating costs	27,000
9.3 Advertising and marketing	41,000
9.4 Leased assets	-
9.5 Staff costs	864,000
9.6 Administration and corporate costs	185,000
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	1,231,500

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: 30 January 2017
(Director/Company secretary)

Print name: Anand Sundaraj

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.