

28 February 2018

The Companies Announcements Office
 The Australian Securities Exchange Limited
 Sydney NSW

Appendix 4D – Half Year Report

1. Name of Entity **Department 13 International Ltd**
ABN 36 155 396 893

Half year ended 31 December 2017

Reporting period 1 July 2017 to 31 December 2017

Previous period 1 July 2016 to 31 December 2016

2. Results for announcement to the market

	31 December 2017 \$	31 December 2016 \$	% Change Up (Down)
2.1 Revenues from continuing operations	2,230,452	454,009	391%
2.2 Loss from continuing operations after tax attributable to members	(2,668,923)	(2,102,741)	26.93%
2.3 Net loss attributable to members	(2,721,212)	(1,911,129)	42.39%
2.4 Proposed dividends	Nil	Nil	-
2.5 Not applicable			

2.6 Revenue increased substantially in the period as the Group built and shipped its first commercialised IP, MESMER™, in scale.

Importantly, gross profit grew 209% to \$977,963.

Staff and consultancy fees increased as the Group focused on commercial delivery of MESMER™, which has offset increased revenue.

	31 December 2017 \$	31 December 2016 \$	% Change Up (Down)
3. Net tangible asset per security	0.23 cent	1.4 cent	(83%)
4. There were no entities for which control was gained or lost during the period.			
5. There were no payments of dividends during the reporting period.			
6. There is no dividend reinvestment plan in operation.			
7. There are no associates or joint venture entities.			
8. The Company is not a foreign entity.			
9. The accounts are not subject to any audit dispute or qualification.			

The Company's half year report follows.

Yours sincerely,



Jonathan Hunter
Chief Executive Officer
Department 13 International Ltd

28 February 2018



Department 13 International Ltd

ACN: 155 396 893

**Interim Consolidated Financial Report
for the Six Months Ended 31 December 2017**

**Department 13 International Ltd
Interim Consolidated Financial Report
For the Six Months Ended 31 December 2017**

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Corporate Information

Department 13 International Ltd

Directors

Jonathan Hunter
Kathleen Kiernan
Alvin Teller
Philip George
Tim Davies

Registered Office

Suite 5
531 Hay Street
Subiaco WA 6008
Australia

Place of Business

7021 Columbia Gateway Drive, Suite 175
Columbia, MD 21046
United States of America
Info@department13.com

Website:

<http://www.department13.com>

Corporate Accountant

Traverse Accountants
Suite 305, Level 3
35 Lime Street
Sydney NSW 2000
Australia

Auditor

RSM Australia Partners
Level 13
60 Castlereagh Street
Sydney NSW 2000
Australia

Lawyer

Steinepreis Paganin
Level 4, The Read Buildings,
16 Milligan Street
Perth WA 6000
Australia

Directors' Report

Your directors present their report, together with the financial statements, on 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 half-year ended 31 December 2017.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report, unless otherwise indicated:

Jonathan Hunter	Chairman, CEO
Kathleen Kiernan	Executive Director
Alvin Teller	Executive Director
Philip George	Non-Executive Director
Tim Davies	Non-Executive Director

Chief Executive Officer

Jonathan Hunter

Chief Financial Officer

Sundeep Patel (appointed 23 October 2017)

Company Secretary

Kevin Kye (resigned 24 January 2018)

Tharun Kuppanda (appointed 24 January 2018)

Review of Operations and Financial Results

The net loss after tax for the six months to 31 December 2017 was \$2,668,923 (2016 loss: \$2,102,741).

Principal Activities and Strategy

The Group's core activity is drone defence, cyber security and RF software communications and networking. Department 13 Inc is based in Maryland, USA which has research and development contracts with multiple US government agencies.

Recent Highlights

- The Group successfully built and shipped its first commercialized IP MESMER™ in scale & sold 9 units during the half.
- For the first time since listing, the Group recorded positive operating cash flow of AUD\$289,000 for the December 2017 quarter. Additionally, the Company received purchase orders from existing customers on two units, which are expected to settle in the March 2018 Quarter
- The signing of exclusive distribution agreements in India and Japan
- The granting of five US patents across both 5G airborne relay and cloud networks
- The appointment of Sundeep Patel as Chief Financial Officer
- Agreement by Management to a 12-month extension of escrow on 200m shares.

Directors' Report (Continued)

Significant Changes in State of Affairs

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

Matters Subsequent to Balance Date

Teaming agreement with Raytheon

The Group entered into a teaming agreement with Raytheon Company (NYSE: RTN), a leading technology supplier to global defence organizations. The companies will work together to market and support existing counter-drone technologies and co-develop new capabilities.

D13 and Raytheon initially will seek opportunities for MESMER™, D13's patented, low-power, non-jamming, non-line-of-sight, non-kinetic, counter-drone solution. MESMER™ provides a safe and effective method of protecting personnel and infrastructure from dangerous drones by automatically detecting and then stopping, redirecting or taking control of them.

Change of Company Secretary

Kevin Kye resigned as Company Secretary on 24 January 2018. On the same day, Tharun Kuppanda was appointed as the new Company Secretary.

Placement

In early February 2018, the Group announced a proposed placement of up to \$12m in Secured Convertible Notes ("Notes"), which convert at AUD\$0.10 per share. The proceeds of the Notes will be used to support additional Research & Development into D13's leading MESMER™ technology, the hiring of additional sales staff and building out inventory for both demonstration stock and in anticipation of converting D13's expanding sales pipeline.

The Placement of Notes will be issued in two tranches.

- Tranche 1
 - Proposed placement of up to \$7.5m Notes under the Company's existing 15% capacity under ASX Listing Rule 7.1. This does not require shareholder approval.
 - Final subscription of Tranche 1 is subject to completion of legal documentation.
 - The preparation of formal documentation for the convertible notes has been progressed, with the terms of the Note Deed having been finalised. Australian and US security documentation and the appointment of the security trustee for noteholders is expected to be completed in the near future.
- Tranche 2
 - Placement of a further \$2.5m - \$4.5m Notes. This will require shareholder approval at an upcoming Extraordinary General Meeting ("EGM").

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect:

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

Directors' Report (Continued)

Likely Developments and Expected Results of Operations

Information on likely developments in the operations of the Company and the expected results of operations have not been included in these financial statements because the directors believe it could potentially result in unreasonable prejudice to the Company.

Environmental Regulation

The Company'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 Company's obligations and is not aware of any breach of environmental requirements as they relate to the Company.

Dividends

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

Indemnification of Officers

During the financial year the Company 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 Company

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

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

Signed in accordance with a resolution of the Board of Directors made pursuant to s306 (3)(a) of Corporations Act 2001.

On behalf of the Directors:



Jonathan Hunter
Chief Executive Officer

28 February 2018

RSM Australia Partners

Level 13, 60 Castlereagh Street Sydney NSW 2000

GPO Box 5138 Sydney NSW 2001

T +61 (0) 2 8226 4500

F +61 (0) 2 8226 4501

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Department 13 International Ltd for the half year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to read "G N Sherwood" with "GNS" written to the right. Below the signature is the printed name and title.

G N SHERWOOD
Partner

Sydney Australia
Dated: 28 February 2018

Department 13 International Ltd
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Six Months Ended 31 December 2017

	Notes	For the 6 Months Ending 31 December 2017 \$	For the 6 Months Ending 31 December 2016 \$
Revenue from continuing operations		2,230,452	454,009
Cost of goods sold		(1,252,489)	(137,136)
Gross profit		<u>977,963</u>	<u>316,873</u>
Other income		9,146	13,399
Consulting expenses		(212,421)	(259,310)
Depreciation expense		(77,785)	(45,437)
Amortisation expense	5	(361,495)	-
Employee benefits expense		(1,018,423)	(735,461)
Share based payments	10	(297,244)	-
Office and occupancy expenses		(144,614)	(137,831)
General and administration expenses		(180,447)	(231,442)
License fees and patent expense		(18,079)	(30,478)
Advertising and marketing		(224,274)	(270,026)
Professional fees		(773,124)	(419,263)
Materials		(31,971)	-
Research expenses		<u>(316,155)</u>	<u>(303,765)</u>
Loss before income tax		(2,668,923)	(2,102,741)
Income tax expense		-	-
Loss for the period		(2,668,923)	(2,102,741)
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		(52,289)	191,522
Total comprehensive loss for the period		<u>(2,721,212)</u>	<u>(1,911,219)</u>
Earnings per share			
<i>From continuing operations</i>			
- Basic/diluted earnings per share (cents)		(0.5115)	(0.4588)

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 31 December 2017

	Notes	As at 31 December 2017 \$	As at 30 June 2017 \$
ASSETS			
Current Assets			
Cash and cash equivalents		890,488	4,924,890
Trade and other receivables		708,650	451,394
Inventory	4	463,226	11,795
Total Current Assets		2,062,364	5,388,079
Non-Current Assets			
Trade and other receivables		42,817	43,419
Property, plant and equipment		279,540	356,131
Internally developed software	5	3,717,413	2,288,552
Total Non-Current Assets		4,039,770	2,688,102
Total Assets		6,102,134	8,076,181
LIABILITIES			
Current Liabilities			
Trade and other payables		1,170,111	943,190
Total Current Liabilities		1,170,111	943,190
Total Liabilities		1,170,111	943,190
Net Assets		4,932,023	7,132,991
EQUITY			
Contributed equity	6	20,266,585	19,987,561
Reserves	7	(62,588)	(251,519)
Accumulated losses		(15,271,974)	(12,603,051)
Equity		4,932,023	7,132,991

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

Department 13 International Ltd
Consolidated Statement of Changes in Equity
For the Six Months Ended 31 December 2017

	Notes	Contributed equity \$	Other contributed equity \$	Accumulated losses \$	Reserves \$	Total \$
2016						
At 1 July 2016		8,581,846	418,320	(6,800,128)	69,031	2,269,069
Loss for the period		-	-	(2,102,741)	-	(2,102,741)
Other comprehensive income		-	-	-	191,522	191,522
Total comprehensive loss		-	-	(2,102,741)	191,522	(1,911,219)
Shares issued in the period		6,580,000	-	-	-	6,580,000
Costs of capital raising		(387,500)	-	-	-	(387,500)
Total transactions with owners		6,192,500	-	-	-	6,192,500
At 31 December 2016		14,774,346	418,320	(8,902,869)	260,553	6,550,350
2017						
At 1 July 2017		19,987,561	-	(12,603,051)	(251,519)	7,132,991
Loss for the period		-	-	(2,668,923)	-	(2,668,923)
Other comprehensive income		-	-	-	(52,289)	(52,289)
Total comprehensive loss		-	-	(2,668,923)	(52,289)	(2,721,212)
Shares issued in the period	6	279,024	-	-	-	279,024
Costs of capital raising		-	-	-	-	-
Issue of performance rights and options		-	-	-	241,220	241,220
Total transactions with owners		279,024	-	-	241,220	520,244
At 31 December 2017		20,266,585	-	(15,271,974)	(62,588)	4,932,023

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 Six Months Ended 31 December 2017

	For the 6 Months Ending 31 December 2017	For the 6 Months Ending 31 December 2016
	\$	\$
Cash flows from operating activities		
Receipts from customers	2,585,963	192,246
Payments to suppliers and employees	(4,672,599)	(2,462,756)
Interest received	8,198	13,397
Net cash outflow from operating activities	(2,078,438)	(2,257,113)
Cash flows from investing activities		
Payments for plant and equipment	(6,068)	(241,778)
Payments for patents and development costs	(1,856,236)	(1,343,191)
Net cash outflow from investing activities	(1,862,304)	(1,584,969)
Cash flows from financing activities		
Proceeds from shares issued net of issue costs	-	6,112,500
Net cash inflow from financing activities	-	6,112,500
Net increase in cash and cash equivalents	(3,940,742)	2,270,418
Cash and cash equivalents at the beginning of the financial period	4,924,890	2,513,371
Foreign exchange adjustment to cash balance	(93,660)	163,348
Cash and cash equivalents at end of the period	890,488	4,947,137

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 Six Months Ended 31 December 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 half-year ended 31 December 2017.

Basis of preparation

These general purpose interim financial statements have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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) 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 half-year interim financial report, the Group incurred a loss after tax of \$2,668,923 and had net cash outflows from operating activities of \$2,078,438 for the half year ended 31 December 2017. As at that date the Group had net current assets \$892,253 and net assets of \$4,932,023. The ability of the Group to continue as a going concern is contingent on a number of factors, the most significant of which is the Company's ability to complete the legal documentation in respect of a AUD\$12million Convertible Note Facility and obtain the first Tranche of AUD\$7.5million in respect of this Facility.

These factors indicate a material uncertainty which may cast significant doubt as to whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The directors believe that there are reasonable grounds to believe that the Group will be able to continue as a going concern, after consideration of the following factors:

Department 13 International Ltd
Notes to the Financial Statements
For the Six Months Ended 31 December 2017

1 Summary of significant accounting policies (continued)

- As stated in Note 9, the Group announced a proposed placement of up to AUD\$12m in Secured Convertible Notes which convert at AUD\$0.10c. The legal documentation and financial settlement of this facility remains outstanding as at the date of this report however the directors remain of the view that these or alternative funds will be available in the ordinary course of business. These proceeds will be used to support additional Research & Development into the Group's MESMER technology;
- As stated in Note 9, the Group entered into a teaming agreement with Raytheon Company (NYSE: RTN) to market and support existing counter-drone technologies and co-develop new capabilities; and
- the Group has the ability to further scale back some 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.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the Group does not continue as a going concern.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the reporting period ended 31 December 2017.

The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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, that 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.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Notes to the Financial Statements For the Six Months Ended 31 December 2017

2 Critical accounting judgements, estimates and assumptions (continued)

The Group remained in a development phase during the period and consequently there is some uncertainty surrounding the availability of future taxable amounts to utilise tax losses. Management considers it prudent not to raise any deferred tax assets at this point in time.

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 had previously adopted a prudent approach and all patent and development costs incurred prior to 30 June 2016 have been expensed.

The directors consider it appropriate to capitalise the Groups development costs in the current and future financial periods due to the ongoing commercialisation of the Groups technology from the 2017 financial year onwards.

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.

3 Business combinations

On 18 December 2015, Department 13 International Ltd (formerly Kunene Resources Limited, "D13 International") wholly acquired Department 13 Inc. Details of this business combination were disclosed in Note 4 of the Group's annual financial statements for the year ended 30 June 2016.

	As at 31 December 2017	As at 30 June 2017
	\$	\$

4 Inventory

Inventories consist of the following:

Parts and components	463,226	11,795
	<u>463,226</u>	<u>11,795</u>

In the half year ended 31 December 2017, a total of \$1,191,480 (31 December 2016: \$72,082) of inventories was included in profit and loss as an expense. No inventory was written down during the period.

Department 13 International Ltd
Notes to the Financial Statements
For the Six Months Ended 31 December 2017

	As at 31 December 2017	As at 30 June 2017
	\$	\$
5 Internally developed software		
Capitalised development costs	4,257,982	2,470,578
Accumulated amortisation	(540,569)	(182,026)
Closing balance	3,717,413	2,288,552
Balance at beginning of the period/year	2,288,552	-
Additions	1,787,404	2,470,578
Amortisation	(361,495)	(185,569)
Effect of foreign currency translation	2,952	3,543
Balance at end of period/year	3,717,413	2,288,552

Additions to internally developed software include capitalised development costs of MESMER™. In addition, research costs of \$316,155 (31 December 2016: \$303,765) for the 6 months period ended 31 December 2017 were expensed to profit and loss.

6 Contributed equity

	As at 31 December 2017		As at 30 June 2017	
	No. of Shares	\$	No. of Shares	\$
Ordinary shares				
At the beginning of the period	512,487,235	19,987,561	415,503,500	8,581,846
Shares issued during the period	-	-	96,350,322	11,968,859
Allotment of shares	-	75,000	-	-
Shares issued to employees/vendors	2,000,000	148,000	633,413	80,000
Conversion of performance rights	11,250,000	56,024	-	-
Share issue expenses	-	-	-	(643,144)
	525,737,235	20,266,585	512,487,235	19,987,561

Department 13 International Ltd
Notes to the Financial Statements
For the Six Months Ended 31 December 2017

	As at 31 December 2017	As at 30 June 2017
	\$	\$
7 Reserves		
Options reserve (a)	180,544	179,860
Performance rights reserve (b)	240,536	
Foreign currency translation reserve (c)	(483,668)	(431,379)
	(62,588)	(251,519)
(a) Options reserve		
Balance beginning of financial period	179,860	179,860
Fair value of options issued during the period	684	-
Balance at end of the financial period	180,544	179,860
(b) Performance rights reserve		
Balance beginning of financial period	-	-
Fair value of options issued during the period	240,536	-
Balance at end of the financial period	240,536	-
(c) Foreign currency translation reserve		
Balance beginning of financial period	(431,379)	(110,829)
Movement	(52,289)	(320,550)
Balance at end of the financial period	(483,668)	(431,379)

8 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.

The following tables present certain asset and liability information regarding geographical segments for the half years ended 31 December 2017 and 31 December 2016.

Segment performance

	Australia		USA		Total	
	December 2017	December 2016	December 2017	December 2016	December 2017	December 2016
	\$	\$	\$	\$	\$	\$
External sales	-	-	2,230,452	454,009	2,230,452	454,009
Total segment revenue	-	-	2,230,452	454,009	2,230,452	454,009
Segment operating result	(737,505)	(314,172)	(1,492,138)	(1,743,132)	(2,229,643)	(2,057,304)
EBITDA	(737,505)	(314,172)	(1,492,138)	(1,743,132)	(2,229,643)	(2,057,304)
Depreciation	-	-	(77,785)	(45,437)	(77,785)	(45,437)
Amortisation	-	-	(361,495)		(361,495)	
Loss before income tax expense	(737,505)	(314,172)	(1,931,418)	(1,788,569)	(2,668,923)	(2,102,741)
Income tax expense	-	-	-	-	-	-
Loss after income tax expense	(737,505)	(314,172)	(1,931,418)	(1,788,569)	(2,668,923)	(2,102,741)

Department 13 International Ltd
Notes to the Financial Statements
For the Six Months Ended 31 December 2017

8 Segment information (continued)

Assets and liabilities

	Australia		USA		Total	
	December 2017	June 2016	December 2017	June 2016	December 2017	June 2016
	\$	\$	\$	\$	\$	\$
Segment assets	487,201	929,404	5,614,933	7,146,776	6,102,134	8,076,180
Segment liabilities	133,225	210,166	1,036,886	733,023	1,170,111	943,190

9 Events occurring after the balance sheet date

Teaming agreement with Raytheon

The Group entered into a teaming agreement with Raytheon Company (NYSE: RTN), a leading technology supplier to global defence organisations. The companies will work together to market and support existing counter-drone technologies and co-develop new capabilities.

D13 and Raytheon initially will seek opportunities for MESMER™, D13's patented, low-power, non-jamming, non-line-of-sight, non-kinetic, counter-drone solution. MESMER™ provides a safe and effective method of protecting personnel and infrastructure from dangerous drones by automatically detecting and then stopping, redirecting or taking control of them.

Change of Company Secretary

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Placement

In early February 2018, the Group announced a proposed placement of up to \$12m in Secured Convertible Notes ("Notes"), which convert at AUD\$0.10 per share. The proceeds of the Notes will be used to support additional Research & Development into D13's leading MESMER™ technology, the hiring of additional sales staff and building out inventory for both demonstration stock and in anticipation of converting D13's expanding sales pipeline.

The Placement of Notes will be issued in two tranches.

- Tranche 1
 - Proposed placement of up to \$7.5m Notes under the Company's existing 15% capacity under ASX Listing Rule 7.1. This does not require shareholder approval.
 - Final subscription of Tranche 1 is subject to completion of legal documentation;
 - The preparation of formal documentation for the convertible notes has been progressed, with the terms of the Note Deed having been finalised. Australian and US security documentation and the appointment of the security trustee for noteholders is expected to be completed in the near future.
- Tranche 2
 - Placement of a further \$2.5m - \$4.5m Notes. This will require shareholder approval at an upcoming Extraordinary General Meeting ("EGM").

Department 13 International Ltd
Notes to the Financial Statements
For the Six Months Ended 31 December 2017

9 Events occurring after the balance sheet date (continued)

No other matter or circumstance has arisen since 31 December 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.

10 Share based payments

During the six months to 31 December 2017, the following transactions were equity settled by the Group:

Shares

On 28 December 2017, the company issued 2,000,000 as part of employee benefit to operational staff.

Performance Rights

Grant Date	Expiry Date	Exercise Price	Balance at 1 Jul 2017	Granted	Converted to Ordinary Shares	Balance at 31 Dec 2017
18/12/2015	18/12/2018	\$-	51,250,000	-	(11,250,000)	40,000,000 ¹
3/08/2017	3/08/2024	\$-	-	2,775,000	-	2,775,000 ²
28/12/2017	28/12/2024	\$-	-	8,000,000	-	8,000,000 ³
28/12/2017	28/12/2020	\$-	-	1,750,000	-	1,750,000 ⁴
28/12/2017	28/12/2021	\$-	-	1,750,000	-	1,750,000 ⁵
28/12/2017	28/12/2022	\$-	-	1,750,000	-	1,750,000 ⁶
			51,250,000	16,025,000	(11,250,000)	56,025,000

Weighted average exercise price	\$-	\$-	\$-	\$-
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Notes:

- 1) The terms of 40,000,000 performance rights have been varied to extend the vesting date. These Rights will now vest evenly each anniversary from date of initial vesting over 3 years. No value had previously been accounted for in relation to these rights as they did not meet the vesting conditions until the current reporting period. ;
- 2) These Rights vest and convert subject to Performance Milestones being achieved;
- 3) 4,000,000 Rights vest in 1 year from 22 September 2017, 4,000,000 Rights will vest 2 years from 22 September 2017 and upon achievement of set Performance Milestones;
- 4) These Rights vest 1 year from 28 December 2017;
- 5) These Rights vest 2 years from 28 December 2017;
- 6) These Rights vest 3 years from 28 December 2017.

Department 13 International Ltd
Notes to the Financial Statements
For the Six Months Ended 31 December 2017

10 Share based payments (continued)

Options

Grant Date	Expiry Date	Exercise Price	Balance at 1 Jul 2017	Granted	Balance at 31 Dec 2017
18/12/2015	18/12/2020	\$0.025	40,000,000	-	40,000,000
28/12/2017	28/12/2022	\$0.250	-	1,350,000	1,350,000
28/12/2017	28/12/2022	\$0.400	-	1,525,000	1,525,000
28/12/2017	28/12/2022	\$0.500	-	1,640,000	1,640,000
			40,000,000	4,515,000	44,515,000

Weighted average exercise price	\$0.025	\$0.391	\$0.062
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Set out below are the options exercisable at the end of the financial period:

Grant Date	Expiry Date	2017 Number	2016 Number
18/12/2015	18/12/2020	44,515,000	40,000,000
		<u>44,515,000</u>	<u>40,000,000</u>

The weighted average share price during the financial period was \$0.0984.

The weighted average remaining contractual life of options at the end of the financial period was 3.17 years.

For options granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date are as follows:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Expected Volatility	Dividend Yield	Risk-free Interest Rate	Fair Value at Grant Date
28/12/2017	28/12/2022	\$0.100	\$0.250	100%	-%	2.3%	\$0.0621
28/12/2017	28/12/2022	\$0.100	\$0.400	100%	-%	2.3%	\$0.0546
28/12/2017	28/12/2022	\$0.100	\$0.500	100%	-%	2.3%	\$0.0509

**Department 13 International Ltd
Directors' Declaration**

In the directors' opinion:

- (a) the financial statements and notes set out on pages 7 to 18 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Group as at 31 December 2017 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date;
 - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that Department 13 International Ltd will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Jonathan Hunter
Chief Executive Officer

28 February 2018

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
DEPARTMENT 13 INTERNATIONAL LTD

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Department 13 International Ltd which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The Directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Department 13 International Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Department 13 International Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Department 13 International Ltd is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the half-year financial report, which indicates that the consolidated entity incurred a loss after tax of \$2,668,923 and had net cash outflows from operating activities of \$2,078,438 for the half year ended 31 December 2017. As at that date the consolidated entity had net current assets \$892,253 and net assets of \$4,932,023. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

RSM

RSM AUSTRALIA PARTNERS


G N Sherwood
Partner

Sydney Australia
Dated: 28 February 2018