

FY'18 Results & Outlook

SYDNEY, NSW and COLUMBIA, MD USA – Department 13 International Limited (ASX:D13) is pleased to announce its FY'18 results and provides the following update to shareholders on the outlook for FY'19.

Highlights:

- Revenue up 147% year-on-year at \$2.7m, with majority driven by MESMER™ system sales
- Improved balance sheet position with closure of Tranche 2 Convertible Note delivering a further \$5m in working capital, post balance date
- Substantial and growing sales opportunity pipeline, with greatly strengthened sales networks in Australia, Asia, India, the United States, Latin America and the Middle East, expected to deliver material unit sales in FY'19

FY'18 Overview

The 2018 period was the most significant year in the Company's short history, which saw revenue increase 147% to \$2.7m, with the majority of revenue coming from MESMER™ system sales and substantial progress being made in all facets of the D13 business. Key achievements throughout the period were:

- The manufacture and shipment of the first v1.5 MESMER™ system;
- The issuance of multiple patents across Counter-UAS, Communication Networks and Cyber-Security, including the strategic acquisition of the CI Portfolio;
- The successful deployment of units into Latin America, Australia and South East Asia, within key verticals of Prisons, Critical Infrastructure and Defense, which also resulted in the Company's first repeat unit orders;
- An expansion of the management team, including the appointment of Sundeeep Patel as CFO and Matt Harvill as the Company's Chief Revenue Officer, as well as the addition of Steve Shattil to the Board to oversee the Company's IP strategy and implementation;
- A significant expansion of the sales channel network with signed distributors and representation in the Middle East, India, Japan and South Korea;
- Entry into a Teaming Agreement with Raytheon, allowing Raytheon personnel to be fully trained to be able to provide implementation, training and maintenance on future large-scale orders;
- MESMER™'s selection from 450+ Counter Unmanned Ariel Systems (C-UAS) entries in the SOFWERX ThunderDrone II competition and progression to become one of three award recipients, and the only winning system built on standalone technology;
- The successful placement of \$7m of Convertible Notes through Tranche 1 of the Convertible Note placement; and
- The achievement of the Company's first positive operating cash flow operating quarter (Q2FY'18).

Post balance date D13 has:

- Secured a further \$5m in funding, the balance of the Company's \$12m Convertible Note;
- Began invoicing for software updates of in-field operating MESMER™ systems, demonstrating ongoing revenue streams from existing customers;
- Appointed Dr. Miles Jakeman to the Board as a Non-Executive Director; and
- Continued conducting demonstrations with international partners, with the Company's opportunity pipeline now consisting of +100 active discussions (growth of more than 200% year-on-year).

Outlook & Strategy

The Company's key current objective is to continue to drive the sales pipeline and deliver meaningful sales within the balance of the calendar year 2018 and FY'19. As previously stated, the Company has a strong degree of confidence of this taking place. Additionally, D13 continues to provide demonstrations to potential customers and negotiate with potential additional regional and global distribution partners.

In addition to delivering sales, the Company have established a number of broader strategic objectives for the FY'19 period. These include:

- Further development of the Company's IP position within the Counter-UAS space and the implementation of the Company's licensing strategy to monetize this position;
- Continued advancement of MESMER™'s capabilities, including the continued growth 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; and
- Improvement to the existing supply chain and manufacturing process.

Department 13 CEO, Jonathan Hunter, commented: *"We are very proud of the immense progress made throughout the year. Our employees' hard work and dedication has laid the pathway for a material acceleration in the growth of the overall business. We look forward to delivering on this success and wish to thank shareholders for their ongoing support to-date and into the future."*

- 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.

Rule 4.3A

Appendix 4E

Preliminary final report

Name of entity:

Department 13 International Ltd

ABN or equivalent company
reference:

36 155 396 893

1. Reporting period

Reporting period:

Year ended 30 June 2018

Previous corresponding period:

Year ended 30 June 2017

2. Results for announcement to the market

Current Period
2018
\$

2.1 Revenue from ordinary activities	Up	147%	to	2,714,468
2.2 Loss from ordinary activities for the period after tax attributable to members	Up	11%	to	6,913,691
2.3 Net loss for the period attributable to members	Up	11%	to	6,913,691
2.4 Dividends		Amount per security		Franked amount per security
Final dividend		Nil		N/A
Interim dividend		Nil		N/A
2.5 Record date for determining entitlements to the dividends		N/A		

2.6 Brief explanation of any of the figures reported above to enable the figures to be understood:

MESMER was commercially available from the beginning of the financial year, resulting in the significant increase in sales revenue.

3. Consolidated Statement of Comprehensive Income

	Current Period 2018 \$	Previous Period 2017 \$
Revenues from continuing operations	2,714,468	1,101,151
Cost of goods sold	(1,576,660)	(439,507)
Gross profit	1,137,808	661,644
Other income	145,758	26,300
Consulting expenses	(481,424)	(696,563)
Depreciation expense	(173,648)	(131,200)
Amortisation expense	(921,450)	(185,569)
Impairment expense	-	(24,326)
Costs of finance	(386,230)	-
Employee benefits expense	(1,993,536)	(2,106,439)
Share based payments	(680,917)	-
Office and occupancy expenses	(336,444)	(302,226)
General and administration expenses	(433,547)	(490,846)
License fees and patent expense	(165,542)	(44,921)
Professional fees	(1,183,127)	(1,584,512)
Research and development expense	(831,794)	(596,085)
Materials	(31,971)	(11,367)
Advertising and marketing	(577,627)	(735,133)
Loss before income tax	(6,913,691)	(6,221,243)
Income tax (expense) / benefit	-	-
Loss after income tax expense from continuing operations	(6,913,691)	(6,221,243)
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations, net of tax	376,834	(320,550)
Total other comprehensive income	376,834	(320,550)
Total comprehensive loss for the year	(6,536,857)	(6,541,793)

Attributable to:		
Members of the Parent Company	(6,913,691)	(6,221,243)
Basic loss per share (cents per share)	(1.32)	(1.33)
Diluted loss per share (cents per share)	(1.32)	(1.33)

4. Consolidated Statement of Financial Position

	Current Period 30 June 2018 \$	Previous Period 30 June 2017 \$
Current Assets		
Cash and cash equivalents	746,906	4,924,890
Trade and other receivables	341,972	451,394
Inventory	1,235,659	11,795
Total Current Assets	2,324,537	5,388,079
Non-Current Assets		
Trade and other receivables	45,186	43,419
Property, plant and equipment	694,858	356,131
Intangible assets	6,509,890	2,288,552
Total Non-Current Assets	7,249,934	2,688,102
Total Assets	9,574,471	8,076,181
Current Liabilities		
Trade and other payables	1,164,376	943,190
Deferred revenue	266,319	-
Total Current Liabilities	1,430,695	943,190
Non-Current Liabilities		
Financial liability	5,538,635	943,190
Total Non-Current Liabilities	5,538,635	943,190
Total Liabilities	6,969,330	943,190
Net Assets	2,605,141	7,132,991
Equity		
Issued capital	20,738,871	19,987,561
Reserves	1,383,012	(251,519)
Accumulated losses	(19,516,742)	(12,603,051)
Total Equity	2,605,141	7,132,991

5. Consolidated Statement of Cash Flows

	Current Period 30 June 2018 \$	Previous Period 30 June 2017 \$
Cash flows from operating activities		
Receipts from customers	3,225,117	839,154
Payments to suppliers and employees	(8,448,470)	(6,989,162)
Interest received	15,142	26,314
Interest paid	(228,140)	-
Awards received	133,172	-
Net cash used in operating activities	(5,303,179)	(6,123,694)
Cash flows from investing activities		
Purchase of property, plant and equipment	(497,715)	(356,350)
Purchase of intellectual property	(1,907,767)	-
Development of intangible assets	(2,910,629)	(2,288,552)
Net cash used in investing activities	(5,316,111)	(2,644,902)
Cash flows from financing activities		
Shares issued net of issue costs	-	11,405,715
Convertible note proceeds received net of issue costs	6,262,978	-
Proceeds from options exercised	253,201	-
Net cash provided by financing activities	6,516,179	11,405,715
Net (decrease)/increase in cash held	(4,103,111)	2,637,119
Cash and cash equivalents at the beginning of the year	4,924,890	2,513,371
Effects of exchange rate changes on cash	(74,873)	(225,600)
Cash and cash equivalents at the end of the year	746,906	4,924,890

6. Consolidated Statement of Changes in Equity

	Issued capital	Other contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2017	19,987,561	-	(251,519)	(12,603,051)	7,132,991
Loss for the year	-	-	-	(6,913,691)	(6,913,691)
Other comprehensive income	-	-	376,834	-	376,834
Total comprehensive loss for the year	-	-	376,834	(6,913,691)	(6,536,857)
Transactions with owners in their capacity as owners:					
Issued capital	695,286	-	-	-	695,286
Costs of issuing share capital	-	-	-	-	-
Options and rights expense	-	-	680,917	-	680,917
Options converted	56,024	-	(56,024)	-	-
Embedded derivative on convertible note issued	-	-	632,804	-	632,804
Balance at 30 June 2018	20,738,871	-	1,383,012	(19,516,742)	2,605,141
Balance at 1 July 2016	8,581,846	418,320	69,031	(6,800,128)	2,269,069
Loss for the year	-	-	-	(6,221,243)	(6,221,243)
Other comprehensive income	-	-	(320,550)	-	(320,550)
Total comprehensive loss for the year	-	-	(320,550)	(6,221,243)	(6,541,793)
-					
Transactions with owners in their capacity as owners:					
Issued capital	12,048,859	-	-	-	12,048,859
Costs of issuing share capital	(643,144)	-	-	-	(643,144)
Options expired	-	(418,320)	-	418,320	-
Balance at 30 June 2017	19,987,561	-	(251,519)	(12,603,051)	7,132,991

7. Dividends (in the case of a trust, distributions)

Date dividend is payable

N/A

+Record date to determine entitlements to the dividend

N/A

If it is a final dividend, has it been declared?

N/A

Amount per security

	Amount per security	Franked amount per security at 30% tax (see note 4)	Amount per security of foreign source dividend
Final dividend: Current year	NIL	N/A	N/A
Interim dividend: Current year	NIL	N/A	N/A

Total dividend (distribution) per security (interim *plus* final)

	Current period	Previous Period
Ordinary securities	N/A	N/A
Preference securities	N/A	N/A

8. Dividend or distribution plans in operation

N/A

The last date(s) for receipt of election notices for the dividend or distribution plans

N/A

9. NTA backing

	Current Period 2018	Previous Period 2017
Net tangible asset backing (deficiency) per ordinary share	(0.0074)	0.0095

10. Control gained or lost over entities

There was no change in control over entities in the year.

11. Details of associates and joint venture entities

The Group has no associates or joint ventures.

12. Significant information

Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position:

As the intangible assets related to the MESMER project were in full use for the period, amortisation expense recognised in the period significantly increased from the prior period.

Significant non-cash expenditure in the period included:

- \$173,648 in depreciation expenditure;
- \$921,450 in amortisation expenditure; and;
- \$680,917 in share-based employee benefits.

The Group also recognised interest expenses of \$386,230 on a \$7,000,000 convertible note issued in the period. The convertible embedded derivative of the convertible notes has been recognised in equity at \$632,804. The debt component of the convertible note has been recognised as a \$5,538,635 financial liability at 30 June 2018.

The Group acquired a parcel of intangible assets in the March 2018 quarter for \$1,907,767.

All non-operating related expenditure was reduced from the previous financial year as the Group overhauled its financial controls with the appointment of a new CFO.

13. Foreign entities set of accounting standards used in compiling the report (IAS)

The Company is not a foreign entity. Australian Accounting Standards have been applied consistently across all entities in the Group.

14. Commentary on the results for the period

14.1 Earnings per security (EPS)

	Current Period 2018	Previous Period 2017
Basic Loss per share (cents)	(1.32)	(1.33)

14.2 Returns to shareholders (Including distributions and buy backs)

	Current Period 2018 \$	Previous Period 2017 \$
Ordinary securities	-	-
Preference securities	-	-
Other equity instruments	-	-
Total	-	-

The dividend or distribution plans shown below are in operation.

N/A

The last date(s) for receipt of election notices for the dividend or distribution plans

N/A

Any other disclosures in relation to dividends (distributions).

N/A

14.3 Significant features of operating performance

See section 11 above.

14.4 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 Columbia, Maryland, USA.

This operating segment is monitored by the Group's chief operating decision makers and strategic decisions are made on the basis of adjusted segment operating results. The chief operating decision makers of the Group are the Chief Executive Officer and Chief Operating Officer.

The following tables present certain asset and liability information regarding geographical segments for the years ended 30 June 2018 and 30 June 2017.

Segment performance

	Australia		USA		Total	
	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017
	\$	\$	\$	\$	\$	\$
External sales	-	-	2,714,468	1,101,151	2,714,468	1,101,151
Total segment revenue	-	-	2,714,468	1,101,151	2,714,468	1,101,151
Segment operating result	(829,973)	(801,929)	(5,523,840)	(5,102,545)	(6,353,813)	(5,904,474)
EBITDA	(829,973)	(801,929)	(5,523,840)	(5,102,545)	(6,353,813)	(5,904,474)
Depreciation and amortisation	-	-	(173,648)	(316,769)	(173,648)	(316,769)
Finance costs	(386,230)	-	-	-	(386,230)	-
Loss before income tax expense	(1,216,203)	(801,929)	(5,697,488)	(5,419,314)	(6,913,691)	(6,221,243)
Income tax expense	-	-	-	-	-	-
Loss after income tax expense	(1,216,203)	(801,929)	(5,697,488)	(5,419,314)	(6,913,691)	(6,221,243)
<i>Assets and liabilities</i>						
Segment assets	268,045	929,404	9,306,426	7,146,776	9,574,471	8,076,180
Segment liabilities	5,654,195	210,166	1,315,135	733,023	6,969,330	943,190

14.5 Report on trends in performance

Cashflows

The Group successfully raised \$7 million in proceeds from the issue of a convertible note, excluding raising costs, in FY 2018.

Receipts from customers increased in-line with sales revenue in the period.

Revenue

MESMER was commercially available from the beginning of the financial year, resulting in a significant increase in sales revenue.

Expenses

All non-operating related expenditure was reduced from the previous financial year as the Group overhauled its financial controls with the appointment of a new CFO.

Significant increases in expenses in the period included:

- \$921,450 in amortisation expenditure as intangible assets related to the MESMER project were in full use for the period
- \$680,917 in share-based employee benefits to incentivise employees.

Balance Sheet

The Group had cash and cash equivalents at 30 June 2018 of \$747k.

The Group acquired a parcel of intangible assets in the March 2018 quarter for \$1,907,767. In-house developed intangible assets increased by \$2,265,847 to \$4,505,763 at 30 June 2018.

14.6 Report any factors which have affected the results during the reporting period or which are likely to affect results in the future, including those where the effect could not be quantified.

Revenues are expected to improve in FY'19 with the continued growth of our sales pipeline, the expansion of our global channel partner network, and continued execution on our intellectual property strategy.

Any other information required to be disclosed to enable the reader to compare the information presented with equivalent information for previous periods. This must include information needed by an investor to make an informed assessment of the entity's activities and results.

N/A

15. Compliance statement

This report is based on accounts to which one of the following applies.

(Tick one)

- | | | | |
|-------------------------------------|--|--------------------------|---|
| <input type="checkbox"/> | The accounts have been audited. | <input type="checkbox"/> | The accounts have been subject to review. |
| <input checked="" type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | The accounts have not yet been audited or reviewed. |

16. If the accounts have not yet been audited or subject to audit review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:

The report is based upon the accounts which are in the process of being audited, but the company does not anticipate any dispute or qualification.

17. If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:

The report is based upon the accounts which are in the process of being audited, but the company does not anticipate any dispute or qualification.

Sign here:



Date: 31 August 2018

Print name:

Jonathan Hunter
Chief Executive Officer